



MONARCH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

FAYETTE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008 TO DECEMBER 31, 2010



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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (commonly referred to as Act 205), are properly expended.

The Monarch Volunteer Firemen's Relief Association, herein referred to as Monarch Volunteer Firefighters' Relief Association, is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations, which is or are recognized as providing the service to the municipality. The Monarch Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Dunbar Township	Fayette	\$19,724	\$18,119	\$20,582

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Monarch Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Monarch Volunteer Fire Department

Mr. Michael Grubbs, President
MONARCH VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Fayette County

We have conducted a compliance audit of the Monarch Volunteer Firefighters' Relief Association pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2008 to December 31, 2010.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Monarch Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's

compliance with those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Monarch Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Monarch Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2010, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives.

The results of our audit, for the period January 1, 2008 to December 31, 2010, found the Monarch Volunteer Firefighters' Relief Association took appropriate corrective action to address four of the seven findings contained in our prior audit report. However, the Monarch Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Monarch Volunteer Firefighters' Relief Association, in all significant respects, received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Monarch Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$1,437 and an investment balance with a fair value of \$1,137.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditure

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Officer's Bond Coverage

Finding No. 4 – Unsecured Loan

The contents of this report were discussed with the management of the Monarch Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

March 23, 2011

JACK WAGNER
Auditor General

MONARCH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Monarch Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Failure to Provide Documentation of Vehicle Ownership

By providing adequate supporting documentation to evidence relief association ownership of the vehicle.

- Inadequate Financial Record-Keeping System

By establishing adequate accounting procedures that meet the minimum financial record-keeping requirements of this department.

- Inadequate Minutes of Meetings

By maintaining detailed minutes of all relief association meetings.

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative roster of all equipment owned by the relief association.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Monarch Volunteer Firefighters' Relief Association has not complied with three of the seven prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Undocumented Expenditure

While the relief association provided adequate supporting documentation for the undocumented expenditures made during the prior audit period, the relief association was unable to provide adequate supporting documentation for the \$800 undocumented expenditure made during the current audit period, as discussed in Finding No. 1 in the Findings and Recommendations section of this report.

MONARCH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS (Continued)

- Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

While the relief association obtained reimbursement of \$7,446 from the affiliated fire department for the unauthorized expenditures made during the prior audit period, the relief association, again, incurred unauthorized expenditures totaling \$2,964 during the current audit period. Refer to Finding No. 2 in the Findings and Recommendations section of this report.

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain Officer's Bond Coverage

We are concerned with the volunteer firefighters' relief association's continued failure to adhere to our previously reported audit recommendations. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

MONARCH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditure

Condition: As cited in our prior audit report, the relief association, again, was unable to provide adequate supporting documentation for expenditures. While the relief association provided adequate supporting documentation for the undocumented expenditures identified during the prior audit period, the relief association was unable to provide adequate documentation during the current audit period for an undocumented expenditure made to the Monarch Volunteer Fire Department, on December 21, 2010, in the amount of \$800.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), [FN1] known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Without adequate supporting documentation, such as invoices, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, good business practices dictate that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: While notified of this condition during our prior audit, relief association officials, again, failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures. Relief association officials did not know why the payment was made to the fire department.

Effect: Lack of supporting documentation, such as an invoice and detailed minutes of relief association meetings, made it impossible to determine if the expenditure was made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

However, as a result of our audit, and subsequent to the audit period, on September 30, 2011, the relief association was reimbursed by the Monarch Volunteer Fire Department, in the amount of \$800, for the undocumented expenditure made during the current audit period.

MONARCH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We, again, recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference.

MONARCH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Condition: As cited in our prior audit report, the relief association, again, expended funds for items that are not authorized by Act 118. While the relief association received reimbursement for unauthorized expenditures identified during our prior audit, the relief association, again, expended funds for items not authorized by Act 118 during the current audit period:

Date	Check No.	Description	Amount
10/20/08	Bank check	Cash bash and bingo supplies	\$ 2,005
09/02/10	Bank check	Bank transfer to cover fire department account overdraft	209
11/08/10	Bank check	Fire department's 2010-2011 property insurance premium	750
Total			<u>\$ 2,964</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1 and 2) states:

The funds of any volunteer firefighters' relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.
- (2) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service

MONARCH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

Because the Department of the Auditor General is legislatively prohibited from giving pre-audit advice, an interagency agreement with the Department of Community and Economic Development (DCED) has been established whereby the DCED provides interpretation of Act 118. Costs associated with cash bash and bingo supplies, fire department property insurance, and the use of relief association funds to cover fire department bank account overdrafts have been deemed by DCED to not qualify as authorized expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: While notified of this condition during our prior audit, relief association officials, again, expended funds for items not authorized by Act 118.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118.

However, as a result of our audit, and subsequent to the audit period, on September 30, 2011, the relief association was reimbursed by the Monarch Volunteer Fire Department, in the amount of \$2,964, for the unauthorized expenditures.

Recommendation: We, again, recommend that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference.

MONARCH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Officer's Bond Coverage

Condition: As cited in our prior audit report, the relief association, again, failed to maintain bond coverage on the disbursing officer as required by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: While notified of this condition during our prior audit, relief association officials, again, failed to maintain officer's bond coverage.

Effect: As a result of the disbursing officer of the relief association not being bonded, the relief association's cash assets are not adequately safeguarded.

However, subsequent to the audit period, on March 16, 2011, the relief association secured officer's bond policy coverage that exceeded the relief association's cash balance.

Recommendation: We recommend the relief association continue to maintain officer's bond coverage in an amount greater than the maximum cash balance as required by Act 118. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference.

MONARCH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Unsecured Loan

Condition: On June 10, 2010, the relief association made an unsecured loan to the Monarch Volunteer Fire Department in the amount of \$1,137.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) requires that loans be:

. . . (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

Cause: Relief association officials were unaware that the loan to the fire company must be secured to ensure compliance with Act 118 provisions.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk.

However, subsequent to the audit period, on September 30, 2011, the relief association was reimbursed by the Monarch Volunteer Fire Department in the amount of \$1,171, which includes \$34 of interest at three percent, for the unsecured loan.

Recommendation: We recommend the relief association enter into written agreements that require at least a three percent interest rate for all future loans to provide adequate security for the relief association's investment, as required by Act 118 at 35 Pa.C.S. § 7416(c)(3). For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

MONARCH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2010

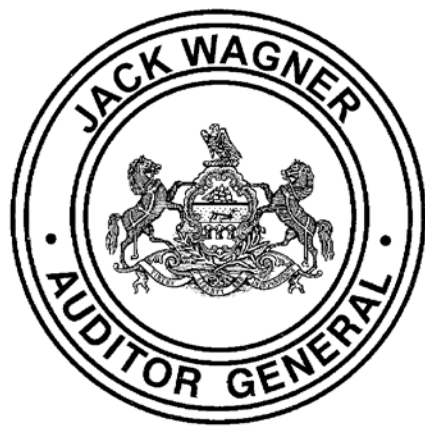
Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 750
Total Benefit Services	\$ 750
Fire Services:	
Equipment purchased	\$ 14,251
Equipment maintenance	7,737
Training expenses	570
Total Fire Services	\$ 22,558
Administrative Services:	
Miscellaneous administrative expenses	\$ 309
Total Administrative Services	\$ 309
Total Investments Purchased:	\$ 1,137
Other Expenditures:	
Principal payments on lease-financing	\$ 39,033
Interest payments on lease-financing	10,273
Undocumented expenditure	800
Total Other Expenditures	\$ 50,106



MONARCH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Monarch Volunteer Firefighters' Relief Association Governing Body:

Mr. Michael Grubbs, President

Mr. Jeff Greyno, Vice President

Ms. Mindy Basinger, Secretary

Mr. Joshua H. Watson, Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association.

Mr. Ronald Keller, Secretary
Dunbar Township

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.