

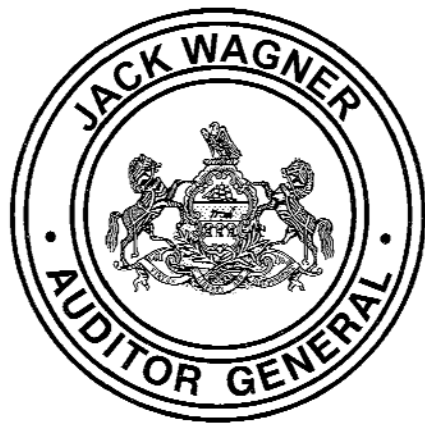
THE PARKESBURG FIRE CO. NO. 1 RELIEF ASSOCIATION

CHESTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2009



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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 Parkesburg Fire Co. No. 1 Relief Association, herein referred to as Parkesburg 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.

BACKGROUND (Continued)

The Parkesburg Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Highland Township	Chester	\$ 3,044	\$ 3,103	\$ 2,953
Parkesburg Borough	Chester	\$20,787	\$21,375	\$19,601
West Sadsbury Township	Chester	\$11,091	\$11,077	\$10,241

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

Parkesburg Fire Company No. 1

Mr. George Budzik, Jr., President
PARKESBURG VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Chester County

We have conducted a compliance audit of the Parkesburg 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, 2007 to December 31, 2009.

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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Parkesburg 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Parkesburg Volunteer Firefighters' Relief Association's recorded financial transactions, tests

of the physical existence of inventories, interviews of selected officials and direct confirmation of the Parkesburg Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. 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 objective.

The results of our audit, for the period January 1, 2007 to December 31, 2009, found the Parkesburg 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 later in this report. The results of our tests also indicated the Parkesburg Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$45,496 and no investments.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Insufficient Officer's Bond Coverage

Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster

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

February 5, 2010

JACK WAGNER
Auditor General

PARKESBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
01/11/07	223	Training vendor	\$ 715
03/03/07	229	Payment to member	<u>1,000</u>
		Total	<u>\$ 1,715</u>

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: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices, made it impossible to determine if the expenditures were 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 under review, on February 8, 2010, the relief association received reimbursement from Parkesburg Fire Company No. 1, in the amount of \$1,715, for the undocumented expenditures.

PARKESBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend 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 and indicated they will take action to comply with the recommendation.

PARKESBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
05/21/08	417	Fire company's auto and commercial property insurance premium	\$ 215
09/25/08	426	Fire company's auto and commercial property insurance premium	215
Total			<u>\$ 430</u>

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

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

- (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 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. Fire company auto and commercial property insurance premiums have been deemed by DCED to not qualify as insurance benefits which directly cover the volunteer firefighter; consequently, these disbursements for fire company auto and commercial property insurance premiums are not authorized under Act 118.

PARKESBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials were unaware that the aforementioned expenditures were 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 the audit and subsequent to the audit period under review, on February 8, 2010, the relief association received reimbursement from the Parkesburg Fire Company No. 1, in the amount of \$430, for the unauthorized expenditures.

Recommendation: We recommend the 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 and indicated they will take action to comply with the recommendation.

PARKESBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Insufficient Officer's Bond Coverage

Condition: The relief association did not maintain a bond in a sufficient amount to cover the authorized disbursing officer. The relief association's bond coverage was \$40,000; however, as of December 31, 2009, the cash assets totaled \$45,496.

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: Relief association officials failed to monitor the cash balance to ensure the officer's bond coverage was in compliance with Act 118 provisions.

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

However, as a result of the audit and subsequent to the audit period under review, on February 18, 2010, the relief association increased their bond coverage to \$60,000.

Recommendation: We recommend the relief association ensure that a performance bond sufficiently covers the authorizing disbursing officer, as required by Act 118. Relief association officials should monitor the cash balance to ensure that events affecting current funds do not again result in an insufficient officer's bond coverage. 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.

PARKESBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While a roster of relief association owned equipment was provided, it was incomplete. The equipment roster did not contain any purchases from 2007. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all of the relief association's fixed assets.

Criteria: The relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's fixed assets. A cumulative equipment roster of all relief association equipment should include the following:

- Types of equipment purchased;
- Dates of purchase;
- Unit costs;
- Names of suppliers;
- Serial numbers, if applicable;
- Current locations of items;
- Final dispositions of sold or damaged equipment; and
- Evidence of the performance and the results of an annual physical inventory.

Cause: Relief association officials failed to establish adequate internal control procedures over fixed assets requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of fixed assets prevents adequate accountability for, and safeguarding of, relief association fixed assets.

Recommendation: We recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

PARKESBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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.

PARKESBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2009

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	\$ 15,290
Total Benefit Services	<u>\$ 15,290</u>
Fire Services:	
Equipment purchased	\$ 61,823
Equipment maintenance	10,156
Training expenses	22,719
Total Fire Services	<u>\$ 94,698</u>
Administrative Services:	
Miscellaneous administrative expenses	\$ 4,440
Total Administrative Services	<u>\$ 4,440</u>
Other Expenditures:	
Undocumented expenditures	\$ 1,715
Total Fire Services	<u>\$ 1,715</u>

PARKESBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Parkesburg Volunteer Firefighters' Relief Association Governing Body:

Mr. George Budzik, Jr., President

Mr. Daniel Stoltzfus, Vice President

Ms. Janice S. Bailey, Secretary

Ms. Tina Myers, Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report.

Ms. Pat Montgomery, Secretary
Highland Township

Ms. Wendy A. Keegan, Secretary
Parkesburg Borough

Ms. Cynthia Mammarella, Secretary
West Sadsbury 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.