



RELIANCE HOOK AND LADDERS' FIREMEN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 TO DECEMBER 31, 2008



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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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), 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 Reliance 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 84 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 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, 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 Reliance Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Upper Chichester Township	Delaware	\$38,410	\$39,665	\$41,150

BACKGROUND (Continued)

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

Reliance Hook and Ladder Volunteer Fire Company No. 1

Mr. James Smith, President
RELIANCE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Reliance 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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2006 to December 31, 2008.

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 Reliance 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 Reliance Volunteer Firefighters' Relief Association's recorded financial transactions, tests of

the physical existence of inventories, interviews of selected officials and direct confirmation of the Reliance Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, 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, 2006 to December 31, 2008, found, in all significant respects, the Reliance Volunteer Firefighters' Relief Association 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 Reliance Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2008, had a cash balance of \$30,686 and no investments.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Inadequate Minutes of Meetings

Finding No. 3 – Inappropriate Ownership of Rescue Vehicle

Finding No. 4 – Inadequate Internal Controls

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

September 1, 2009

JACK WAGNER
Auditor General

RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: During and subsequent to the audit period, the relief association was unable to provide adequate supporting documentation for the following expenditures:

Current Period Undocumented Expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
01/25/06	999	Credit card company	\$ 148
03/09/06	1012	Credit card company	93
07/31/06	1037	Credit card company	95
11/15/06	1068	Credit card company	140
02/26/07	1084	Credit card company	64
06/11/07	1110	Credit card company	593
09/04/07	1113	Credit card company	50
01/04/08	Online pay	Credit card company	1,081
01/04/08	Online pay	Credit card company	212
06/25/08	Online pay	Credit card company	66
09/10/08	Online pay	Credit card company	176
12/02/08	Online pay	Credit card company	360
Current Period Total			<u>\$ 3,078</u>

Subsequent Period Undocumented Expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
07/17/09	Online pay	Credit card company	\$ 626
Subsequent Period Total			<u>\$ 626</u>
Total Undocumented Expenditures			<u>\$ 3,704</u>

RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: Act 84 at 53 P.S. § 8507(a) states, in part:

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

Without adequate supporting documentation, such as invoices, training certificates, and detailed meeting minutes, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require 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, training certificates, and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Act 84 at 53 P.S. § 8506(e). In addition, the failure to maintain adequate 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, on April 28, 2010, the relief association received reimbursement from the affiliated fire company, in the amount of \$3,704, for the above undocumented expenditures.

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

RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Minutes of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings as required by Act 84. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period.

Criteria: Act 84 at 53 P.S. § 8505(a) states, in part, that the relief association:

. . . must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

Cause: Relief association officials were unaware that the minutes of meetings were inadequate.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend the relief association maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. 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 and indicated they will take action to comply with the recommendation.

RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inappropriate Ownership of Rescue Vehicle

Condition: On October 30, 2007, the relief association entered into a conditional sales agreement with the Marcus Hook Trainer Fire Department to purchase a rescue vehicle, costing \$50,000, to carry personnel and safeguard equipment; however, the title to the vehicle was never transferred to the Reliance Volunteer Firefighters' Relief Association. Through the course of our audit engagement, it was discovered that the vehicle is titled to the Lennox Park Fire Company which is now disbanded. When the Lennox Park Fire Company merged with the Marcus Hook and Trainer Fire Companies, the newly formed Marcus Hook-Trainer Fire Department never took ownership of the vehicle and subsequently, when the vehicle was sold to the Reliance Volunteer Firefighters' Relief Association, again, the title was not transferred.

Criteria: The relief association should maintain sole ownership of all equipment purchased by the relief association. As such, rescue vehicles purchased by the relief association are to be titled in the name of the relief association.

Cause: The relief association failed to establish adequate internal control procedures to ensure that the rescue vehicle purchased was titled in the name of the relief association.

Effect: As a result of the rescue vehicle being inappropriately titled, this relief association asset was not properly safeguarded.

Recommendation: We recommend the rescue vehicle be titled in the name of the relief association. 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 and indicated they will take action to comply with the recommendation.

RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Internal Controls

Condition: The relief association has failed to establish adequate internal controls. The following internal control weaknesses existed during the audit period:

- Original invoices were not required prior to the payment of purchases;
- Financial related activities were not presented, discussed, and approved at relief association meetings;
- Detailed minutes of meetings were not maintained;
- Check numbers were out of sequence in the journals due to the relief association recording transactions in the journals when checks cleared the bank rather than when the relief association wrote the check;
- The majority of all credit card expenditures were undocumented; and
- Documentation to support various expenditures and deposits was not available for examination at the time of the audit engagement.

Criteria: Act 84 at 53 P.S. § 8505(a) states, in part, that the relief association:

.... must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

Furthermore, prudent business practice dictates that:

- Original invoices be required prior to the payment of purchases;
- All purchases be presented to the association membership for discussion and approval;
- Detailed meeting minutes be maintained to accurately document relief association business;
- Check numbers be recorded in the journals in the chronological order of which the checks are issued;
- All credit card expenditures be documented; and
- Documentation be made available to support all relief association expenditures and deposits.

Cause: The relief association failed to establish adequate internal controls to ensure the propriety of expenditures and proper documentation of relief association transactions. The relief association officials were unaware of the relief association's ineffective internal controls.

RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Effect: The failure to establish adequate internal controls inhibits the relief association's ability to ensure the transactions are properly executed and to timely detect unauthorized acquisitions, use, or disposition of the relief association's assets. Furthermore, the lack of effective internal controls places the relief association funds at greater risk for misappropriation, as well as for the increased likelihood for fraud.

Recommendation: We recommend the relief association officials adopt internal control procedures, which will require the following:

- Payment for purchases only after review of the original invoices;
- Presentation, discussion, and approval of financial activities at relief association meetings;
- Maintenance of detailed meeting minutes;
- Recording of check numbers in the journals in the chronological order that the checks were issued;
- Maintenance of documentation for all credit card transactions; and
- Maintenance of documentation to support all expenditures and deposits made.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION.

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

RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

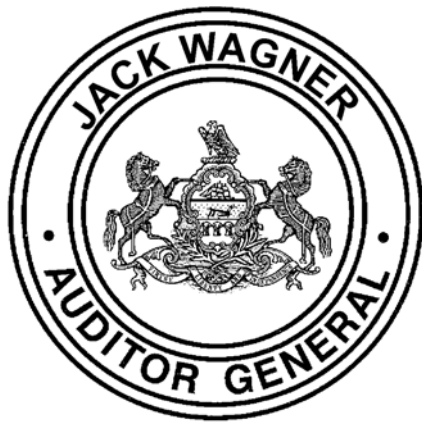
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, 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. 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	\$ 19,398
Insurance claim reimbursement	835
Relief benefits	445
Tokens of sympathy and goodwill	1,352
Total Benefit Services	\$ 22,030
Fire Services:	
Equipment purchased	\$ 67,591
Equipment maintenance	33,963
Training expenses	14,380
Fire prevention materials	2,601
Total Fire Services	\$ 118,535
Administrative Services:	
Miscellaneous administrative expenses	\$ 1,116
Total Administrative Services	\$ 1,116
Other Expenditures:	
Undocumented expenditures	\$ 3,078
Total Other Expenditures	\$ 3,078



RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Reliance Volunteer Firefighters' Relief Association Governing Body:

Mr. James Smith, President

Mr. Aaron Barrowclough, Vice President

Ms. Brandy Beauchamp, Secretary

Mr. Steven Bender, Treasurer

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

Ms. Dora A. Coleman, Secretary
Upper Chichester 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.