



**STONEBORO VOLUNTEER FIRE COMPANY
RELIEF ASSOCIATION**

MERCER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2011

RELEASED OCTOBER 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. William Ewing, President
STONEBORO VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Mercer County

We have conducted a compliance audit of the Stoneboro 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, 2009 to December 31, 2011.

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 Stoneboro 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 Stoneboro Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Stoneboro Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, 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, 2009 to December 31, 2011, found the Stoneboro 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 Stoneboro Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$18,245 and no investments.

Finding No. 1 – Undocumented Expenditures

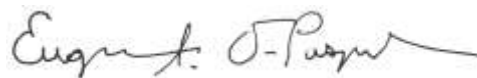
Finding No. 2 – Untimely Receipt of State Aid

Finding No. 3 – Inappropriate Presigning of Blank Checks

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

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

April 5, 2013



EUGENE A. DEPASQUALE
Auditor General

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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 Stoneboro Volunteer Fire Company Relief Association, herein referred to as Stoneboro 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 Stoneboro Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Lake Township	Mercer	\$3,807	\$4,285	\$6,888
Sandy Lake Township	Mercer	\$3,440	\$3,872	\$5,759*
Stoneboro Borough	Mercer	\$5,089	\$5,728	\$8,492
Worth Township	Mercer	\$2,420	\$2,724	\$4,310

*State aid was not distributed timely by Sandy Lake Township (see Finding No. 2 in the Findings and Recommendation section of this report).

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

Stoneboro Volunteer Fire Company

STONEBORO 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>
09/01/09	460	Training Expense	\$ 175
05/11/10	478	Administrative Expense	300
11/08/10	487	Equipment Purchase	50
05/11/11	497	Administrative Expense	300
08/11/11	506	Administrative Expense	222
Total			<u>\$ 1,047</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, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

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

Effect: Lack of supporting documentation, such as invoices and detailed minutes of relief association meetings, 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.

STONEBORO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No.1 – (Continued)

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices, to evidence the validity of these expenditures or that the relief association be reimbursed \$1,047 for these undocumented expenditures. We also 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.

STONEBORO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Untimely Receipt of State Aid

Condition: The Stoneboro Volunteer Firefighters' Relief Association did not receive the 2011 state aid allocation, in the amount of \$5,759, from Sandy Lake Township, until January 3, 2012, which was 99 days after the municipality received the funds from the Commonwealth of Pennsylvania, on September 26, 2011. The Relief Association did timely deposit the state aid on January 20, 2012.

Criteria: As required by the Foreign Fire Insurance Tax Distribution Law Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), the municipality shall within 60 days of the date of the receipt of the monies, from the State Treasurer, pay the amount received to the relief association fund of the fire department or departments, or fire company or companies.

Furthermore, it is the relief association's responsibility to monitor the municipality's distribution of the state aid. Upon receipt of the state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

Cause: The relief association failed to monitor the municipality's receipt and distribution of the 2011 state aid allocation.

Effect: As a result of the untimely receipt of the state aid allocation, funds were not available to pay general operating expenses or for investment purposes. In addition, untimely receipt of allocations increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend the relief association officials monitor the municipality's distribution of state aid allocations to ensure that the allocation is distributed to the relief association within 60 days of the date of receipt. 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.

FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Inappropriate Presigning of Blank Checks

Condition: A review of the relief association's checkbook, at the time of the current audit engagement, revealed that four blank checks were presigned by both of the relief association officers who were authorized to sign checks via the use of rubber stamped signatures. The presigning of blank checks and the use of rubber stamps for signatures negates the relief association's internal control over the disbursement process.

Criteria: Prudent business practice dictates that the relief association officials have sufficient internal control procedures in place to prohibit the presigning of blank checks and require the use of handwritten signatures. Strong internal control procedures require that checks be signed only after the propriety of the expenditures have been determined and the payees, dates, and amounts to be paid have been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to signing the checks.

Cause: The relief association's officers were aware of the necessity for two signatures but did not realize that applying the first and second signature prior to evaluating the propriety of the expenditure and using rubber stamped signatures negated the relief association's internal controls over the disbursement process.

Effect: As a result of rubber stamps being used to apply on blank checks the signature of both officials authorized to sign checks, assets are placed at greater risk of misappropriation since the designated officers may not have the opportunity to verify the propriety of the expenditures before payment is made. Also, using rubber stamps to apply the designated officer's signature provided no assurance that the designated officers actually authorized these checks and, thus weakens controls over the disbursement process.

Recommendation: We recommend that the practice of presigning blank checks and using rubber stamped signatures be immediately discontinued. We also recommend that all of the relief association officers ensure that checks are signed and co-signed by hand only after the propriety of the expenditures have been determined and the payees, dates, and amounts to be paid have been confirmed. 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.

STONEBORO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

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

Condition: The relief association officials failed to maintain a complete and accurate roster of equipment owned by the relief association. During the current audit period, the relief association equipment purchases totaled \$42,399; however, equipment purchases totaling \$24,795 were not properly accounted for on the relief association's equipment roster. In addition, as verbally cited during our prior audit, 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: Prudent business practice dictates 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 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.

STONEBORO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

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.

STONEBORO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2011

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	\$ 6,420
Total Benefit Services	\$ 6,420
Fire Services:	
Equipment purchased	\$ 42,399
Equipment maintenance	4,566
Training expenses	1,727
Total Fire Services	\$ 48,692
Administrative Services:	
Other administrative expenses	\$ 996
Total Administrative Services	\$ 996
Other Expenditures:	
Undocumented expenditures	\$ 1,047
Total Other Expenditures	\$ 1,047

STONEBORO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Stoneboro Volunteer Firefighters' Relief Association Governing Body:

Mr. William Ewing, President

Mr. Chad King, Vice President

Mr. Josh Staples, Secretary

Mr. Roger Somers, Treasurer

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

Ms. Constance Westlake, Secretary
Lake Township

Ms. Heather K. Bacher, Secretary
Sandy Lake Township

Ms. Rosalynn Reagle, Secretary
Stoneboro Borough

Ms. Michelle Williams, Secretary
Worth Township

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.