



**VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
OF THE BOROUGH OF WEST NEWTON**

HEREIN REFERRED TO AS:

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

WESTMORELAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2008



CONTENTS

Background.....	1
Letter From the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster	6
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure to Maintain Officer's Bond Coverage.....	7
Finding No. 3 – Inappropriate Payment on Lease-Purchase Agreement.....	8
Finding No. 4 – Undocumented Loan.....	9
Accompanying Expenditure Information	10
Report Distribution List	11



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 West Newton 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 West Newton Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>
West Newton Borough	Westmoreland	\$15,459	\$15,814

BACKGROUND (Continued)

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

West Newton Volunteer Fire Company, Incorporated

Mr. Howard Walmsley, President
WEST NEWTON VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Westmoreland County

We have conducted a compliance audit of the West Newton 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, 2007 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 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 West Newton Volunteer Firefighters' Relief Association's administration of state aid and accumulated 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 West Newton Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the West Newton 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 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, 2007 to December 31, 2008, found the West Newton Volunteer Firefighters' Relief Association took appropriate corrective action to address the findings contained in our prior audit report, except for Finding Nos. 1 and 2 listed below and discussed later in this report. In addition, the results of our audit found, in all significant respects, the West Newton Volunteer Firefighters' Relief Association received and expended 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 West Newton Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$5,847 and an investment balance with a fair value of \$25,000.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Officer's Bond Coverage

Finding No. 3 – Inappropriate Payment on Lease-Purchase Agreement

Finding No. 4 – Undocumented Loan

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

December 30, 2009

JACK WAGNER
Auditor General

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The West Newton Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Unauthorized Expenditures

By receiving reimbursement of \$484 for repairs to a fire company vehicle which were considered unauthorized expenditures in the prior audit. In addition, the relief association did not make any authorized expenditures during the current audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The West Newton Volunteer Firefighters' Relief Association has not complied with certain prior audit findings. These issues are further discussed in the findings listed below and noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

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

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

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the prior two audit reports, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. During our current audit, the relief association did not provide a current copy of its equipment roster. As such, there was no indication that an annual inventory of the equipment was performed to account for 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 roster of all relief association equipment should include the following:

- Type of equipment purchased.
- Date of purchase.
- Unit cost.
- Name of supplier.
- Serial number, if applicable.
- Current location of item.
- Final disposition of sold or damaged equipment.
- Notation of the annual inventory.

Cause: While notified of this condition in the prior two audit reports, relief association officials neglected to establish adequate internal control procedures over fixed assets to include the maintenance of a cumulative equipment roster and the performance of an annual equipment inventory.

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 equipment inventory prevents adequate accountability and safeguarding of relief association assets.

Recommendation: We again recommend the relief association officials maintain a cumulative roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual inventory of all operable equipment and that the performance of the inventory be sufficiently documented. 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.

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Officer's Bond Coverage

Condition: In the prior audit report, we noted that the relief association neglected to maintain sufficient bond coverage on the disbursing officer. While the relief association did increase its bond coverage to \$25,000 on October 9, 2007, the bond policy lapsed on March 18, 2008. The relief association was without bond coverage from March 18, 2008 to December 29, 2009.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary, or otherwise, shall be bonded by corporate surety for the faithful performance of his duties. The amount of such 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 such bond shall be a proper charge against the funds of the association.

Cause: Relief association officials were aware of the Act 84 provisions regarding the maintenance of officer's bond coverage but neglected to renew the coverage when the policy lapsed.

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

As a result of our audit, effective December 29, 2009, the relief association obtained an officer's bond policy in the amount of \$50,000.

Recommendation: We again recommend the relief association continue to maintain officer's bond coverage in an amount greater than the maximum cash balance as required by Act 84. 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 at the audit exit conference and indicated they will take action to comply with the recommendation.

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inappropriate Payment on Lease-Purchase Agreement

Condition: On July 19, 2007, the relief association expended \$9,591 which represented one lease payment under a lease-purchase agreement to finance the purchase of squad truck; however, the lessee named on the lease agreement was West Newton Volunteer Fire Company rather than the relief association. As a result, the relief association made a payment under a financing agreement to which the fire company was named lessee.

Criteria: Act 84 at 53 P.S. § 8506(e)(11) states:

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

To purchase safeguards for preserving life, health, and safety to volunteer firefighters, so as to ensure their availability to participate in the volunteer fire service.

In addition, sound business practices dictate that the relief association maintain ownership of all equipment purchased by the relief association in order to provide protection over all relief association assets.

Cause: The relief association failed to establish internal control procedures that would require the relief association only make payments on agreements that are in the name of the relief association.

Effect: As a result of the relief association making a payment on a fire company obligation, the relief association is deemed to be making payments on equipment which will be owned by the fire company rather than the relief association. Although payments to lease a vehicle are considered authorized expenditures, the relief association must be named as the purchaser in the agreement to ensure that the relief association is documented as the owner of the equipment.

Recommendation: We recommend the relief association either receive reimbursement of the amount of the lease payment or take appropriate action to ensure that the ownership of the squad truck will rest with the relief association. This action may be taken through a formal written agreement between the fire company and the relief association ensuring that the equipment will be owned by the relief association upon fulfillment of the lease purchase. 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 presented at the audit exit conference and indicated they will take action to comply with the recommendation.

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Undocumented Loan

Condition: On September 18, 2008, the relief association made a loan to the West Newton Volunteer Fire Company in the amount of \$5,000, without a formal written loan agreement specifying the payment schedule, interest rate and collateral.

Criteria: Act 84 at 53 P.S. § 8506(c)(3) states, in part:

All, or any part of the funds of any volunteer firefighters' relief association may be invested:

In any obligation of an incorporated fire company which obligation is secured by assets of the [fire] company having capital value equal to at least one hundred fifty percent of the amount of the obligation at the time it is made, and is subject to provisions which will amortize such loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least equal to one hundred fifty percent of the balance remaining due.

Cause: Relief association officials were aware of the Act 84 requirements but neglected to document their loan with the fire company.

Effect: Failure to adequately document the loan through a formal written agreement as well as the failure to collateralize the loan places the investment at greater risk.

However, subsequent to the period under review, on October 5, 2009, the relief association received \$5,162 (principal and interest) from the West Newton Volunteer Fire Company, fully liquidating the loan.

Recommendation: For all future loans, we recommend the relief association and fire company prepare a formal written loan agreement, signed by both parties, specifying the payment schedule and the interest rate. The loan agreement must also specifically identify the collateral to protect the investment as required by Act 84 at 53 P.S. § 8506(c)(3). If such action is not taken, we recommend that the loan be immediately liquidated. 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 presented at the audit exit conference.

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 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	\$ 7,497
Tokens of sympathy and goodwill	145
Total Benefit Services	\$ 7,642
Fire Services:	
Equipment purchased	\$ 30,600
Equipment maintenance	8,772
Training expenses	1,031
Total Fire Services	\$ 40,403
Administrative Services:	
Miscellaneous administrative expenses	\$ 906
Total Administrative Services	\$ 906
Total Investments Purchased	\$ 5,000
Other Expenditures:	
Principal payments on loan	\$ 9,222
Interest payments on loan	728
Total Other Expenditures	\$ 9,950

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

West Newton Volunteer Firefighters' Relief Association Governing Body:

Mr. Howard Walmsley, President

Mr. Steven Burkett, Vice President

Mr. David Millward, Secretary

Ms. Leah Burkett, Treasurer

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

Ms. Pamela M. Humenik, Secretary
West Newton Borough

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.