



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

WESTMORELAND 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



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Joshua Payne, 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, 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 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 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 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, 2011, 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, 2009 to December 31, 2011, found the West Newton Volunteer Firefighters' Relief Association took appropriate corrective action to address three of the four findings contained in our prior audit report. However, the West Newton Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining finding 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 West Newton Volunteer Firefighters' Relief Association, in all significant respects, did not receive and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report; therefore, West Newton Volunteer Firefighters' Relief Association's state aid will be withheld if appropriate corrective action is not taken as discussed in the Potential Withhold of State Aid section of this report. The results of our tests also indicated the West Newton Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$15,825 and an investment balance with a fair value of \$20,000.

Finding No. 1 – Noncompliance With Prior Audit Recommendation
Failure to Secure Loan Made to Affiliated Fire Company

Finding No. 2 – Inappropriate Ownership of Rescue Vehicle

Finding No. 3 – Unauthorized Expenditures

Finding No. 4 – Inadequate Financial Record-Keeping System

Finding No. 5 – Failure to Maintain Minutes of Meetings

Finding No. 6 – Failure to Main a Complete and Accurate Membership Roster

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.

June 19, 2013

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

Background.....	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance with Prior Audit Recommendation – Failure to Secure Loan Made to Affiliated Fire Company.....	4
Finding No. 2 – Inappropriate Ownership of Rescue Vehicle.....	6
Finding No. 3 – Unauthorized Expenditures	7
Finding No. 4 – Inadequate Financial Record-Keeping System.....	9
Finding No. 5 – Failure to Maintain Minutes of Meetings.....	10
Finding No. 6 – Failure to Maintain a Complete and Accurate Membership Roster	11
Potential Withhold of State Aid.....	12
Accompanying Expenditure Information	13
Report Distribution List	14

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 Volunteer Firemen's Relief Association of the Borough of West Newton, herein referred to as 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 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 West Newton Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
West Newton Borough	Westmoreland	\$14,158	\$15,936	\$21,499

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

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure to Maintain a Complete and Accurate Equipment Roster

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

- Failure to Maintain Surety (Fidelity) Bond Coverage

By maintaining Surety (Fidelity) Bond Coverage in an amount greater than the balance of cash assets.

- Inappropriate Payment on Lease-Purchase Agreement

By executing a formal written agreement between the fire company and the relief association ensuring that the equipment will be owned by the relief association, whole or in part, upon fulfillment of the lease-purchase agreement.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The West Newton Volunteer Firefighters' Relief Association has not complied with one of the four prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation -
Failure to Secure Loan Made to Affiliated Fire Company

Even though the relief association received payment from the fire company for a previous \$5,000 undocumented loan, on October 5, 2009, the relief association made a \$19,952 undocumented loan to the affiliated fire company during the current audit period, as discussed in Finding No. in the Findings and Recommendations section of this report.

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Secure Loan Made to Affiliated Fire Company

Condition: The relief association made a motion during its December 2011 meeting to use the proceeds from the redemption of a certificate of deposit to make a loan to the West Newton Volunteer Fire Company. Subsequent to the audit period, on January 9, 2012, the relief association officials redeemed the certificate of deposit, valued at \$20,000, and deposited the proceeds of \$19,952 into the affiliated fire company's account without obtaining a formal written loan agreement.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) states:

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

In any obligation of an incorporated fire company, provided that the obligation is: (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.

In addition, prudent business practice requires such terms of the obligation be placed into a written loan agreement.

Cause: Although the minutes evidencing this transaction state that there would be an agreement with the fire company and the fire company would pay \$100 per month until the loan, plus 3% interest, was paid in full, relief association officials failed to establish adequate internal control procedures to ensure that the terms of the loan agreement with the fire company were appropriately documented and in compliance with Act 118 provisions. In addition, there have been no payments made to the relief association.

Effect: Failure to adequately secure the loan through a formal written loan agreement places the investment at greater risk. Furthermore, failure to secure a loan made to the affiliated fire company may lead to a total withholding of state aid, unless appropriate corrective action is taken, as detailed on page 12 of this report.

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: 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 for this loan. The loan agreement must also specifically identify the collateral to protect the investment as required by Act 118 at 35 Pa.C.S. § 7416(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 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 – Inappropriate Ownership of Rescue Vehicle

Condition: On January 22, 2010, the relief association purchased a rescue vehicle, in the amount of \$8,500 to carry personnel and safeguard equipment; however, the title to the vehicle was inappropriately issued in the name of West Newton Volunteer Fire Department instead of being issued in the name of the relief association.

Criteria: Prudent business practice dictates that 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 in the name of the fire company, this relief association asset was not properly safeguarded. Furthermore, this inappropriate ownership of a rescue vehicle may lead to a total withholding of state aid, unless appropriate corrective action is taken, as detailed on page 13 of this report.

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 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 – Unauthorized Expenditures

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

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
03/20/11	1087	Four tires for squad truck owned by the fire company	\$ 555
08/28/11	1115	Gas for squad truck owned by the fire company	<u>162</u>
Total			<u>\$ 717</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1 and 11) 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.

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

Costs associated with the purchase of tires and gas for a squad truck owned by the affiliated fire company do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials were unaware that expending relief association funds to purchase these tires and gas for a squad truck owned by the affiliated fire company is 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. Furthermore, these unauthorized expenditures may lead to a total withhold of state aid, unless appropriate corrective action is taken, as detailed on page 12 of this report.

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend the relief association be reimbursed \$717 for the unauthorized expenditures and 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 and indicated they will take action to comply with the recommendation.

WEST NEWTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Financial Record-Keeping System

Condition: The relief association's financial record-keeping system did not provide effective control over cash receipts, disbursements, and monetary assets, and does not meet the minimum requirements of maintaining financial records established by this department. The following are the noted deficiencies:

- A journal was not maintained to record the receipts and disbursements for 2011;
- Ledgers were not utilized to record the transactions of the relief association accounts; and
- Documentation to support various expenditures was not available for examination at the time of the audit. In addition, certificate of deposit interest earned during the prior audit period, in the amount of \$68, was not deposited into a relief association account.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states:

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, an adequate system of accounting and record keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials were unaware of their various record-keeping responsibilities. In 2011, the President assumed both the President and Treasurer's positions. He paid the invoices by check; but failed to keep a journal of accounts.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations and properly account for all receipts and disbursements.

Recommendation: We recommend the relief association establish and maintain a financial record-keeping system that meets the minimum record-keeping requirements of this department. 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. 5 – Failure to Maintain Minutes of Meetings

Condition: The relief association did not maintain minutes of meetings as required by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

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

Article III, Section 4, of the relief association bylaws states, in part:

The secretary shall keep correct minutes of all meetings of the association and executive board.

Article IV, Section 4, of the relief association bylaws states, in part:

Order of business for meetings shall include the reading of the minutes of previous meeting.

Cause: Relief association officials neglected to maintain minutes of meetings as required by relief association bylaws.

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

Recommendation: We recommend relief association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record 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 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. 6 – Failure to Maintain a Complete and Accurate Membership Roster

Condition: The relief association officials failed to maintain a complete and accurate roster of relief association members. While the relief association provided a membership roster for the current audit period, the roster was incomplete. An address for each member, membership duties, and dates of birth were not provided for all members.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member;
- Members' mailing addresses;
- Dates of births;
- Dates of memberships; and
- Membership classifications.

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Even though notified verbally of this condition during our prior audit, relief association officials neglected to maintain a comprehensive roster of relief association members. Due to a turnover of relief association officers, the new officers were not aware of the prior audit verbal cite.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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
POTENTIAL WITHHOLD OF STATE AID

Conditions reported in Findings Nos. 1, 2, and 3, will lead to a total withholding of state aid unless these findings are corrected. However, such action will not be taken if sufficient documentation is provided within 60 days to evidence compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

WEST NEWTON 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	\$ 14,304
Total Benefit Services	\$ 14,304
Fire Services:	
Equipment purchased	\$ 18,713
Equipment maintenance	11,452
Training expenses	752
Total Fire Services	\$ 30,917
Administrative Services:	
Officer compensation	\$ 1,080
Other administrative expenses	1,492
Total Administrative Services	\$ 2,572

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. Joshua Payne, President

Mr. Rick Waggoner, Vice President

Mr. Howard Walmsley, Secretary

Mr. Charles Krasnevich, 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 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.