



WEST RIDGE FIREMAN'S RELIEF ASSOCIATION

ERIE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2009



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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, 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 Ridge Fireman's Relief Association, herein referred to as West Ridge 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 Ridge Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Millcreek Township	Erie	\$93,170	\$95,645	\$85,936

BACKGROUND (Continued)

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

West Ridge Fire Department

Mr. James Jones Sr., President
WEST RIDGE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Erie County

We have conducted a compliance audit of the West Ridge 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, 2009.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit 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 Ridge 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 Ridge 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 Ridge Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit 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, 2009, found, in all significant respects, the West Ridge Volunteer Firefighters' Relief Association did not receive and expend funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the following findings discussed later in this report. The results of our tests indicated the West Ridge Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2009, had a cash balance of \$83,751 and an investment balance with a fair value of \$128,313.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 3 – Insufficient Officer's Bond Coverage – Deductible Clause

We also noted another matter that has been included in the following observation discussed later in this report.

Observation – Diversification of Investments

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

February 9, 2010

JACK WAGNER
Auditor General

WEST RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure to Maintain Minutes of Meetings

By maintaining minutes of relief association meetings.

- Inadequate Signatory Authority for the Disbursement of Funds

By requiring more than one signature on negotiable instruments.

- Failure to Maintain a Complete and Accurate Membership Roster

By maintaining a comprehensive listing of the relief association membership.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

While the relief association obtained reimbursement on July 22, 2008, in the amount of \$10,433, from the affiliated fire company for the undocumented expenditures made in the prior audit period, it again neglected to maintain adequate supporting documentation for all expenditures made in the current audit period. This is discussed in Finding No. 1 in this report.

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

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 RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Condition: As cited in three prior audit reports, the relief association was unable to provide adequate supporting documentation for all relief association expenditures made in prior audit periods. During the current audit period, the relief association disbursed funds for the following expenditures for which the relief association was again unable to provide sufficient documentation:

	<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
	02/22/07	1386	Credit card provider	\$ 4,375
*	02/22/07	1388	Equipment vendor	266
	03/12/07	1394	Disbursement to member	33
*	04/30/07	1417	Disbursement to member	100
	05/07/07	1418	Credit card provider	402
	05/21/07	1424	Credit card provider	261
	06/10/07	1427	Disbursement to member	265
	07/20/10	1443	Training provider	150
	09/12/07	1470	Medical center	100
	09/12/07	1471	Credit card provider	67
	09/12/07	1473	Training provider	75
	10/23/07	1482	Credit card provider	419
	11/19/07	1491	Credit card provider	30
*	11/19/07	1491	Credit card provider	275
*	01/07/08	1501	Training provider	230
	03/20/08	1530	Disbursement to member	317
	04/21/08	1533	Credit card provider	855
	05/19/08	1545	Credit card provider	757
	07/07/08	1549	Credit card provider	46
	07/22/08	1550	Credit card provider	8
	08/18/08	1559	Training provider	360
	09/16/08	1564	Disbursement to member	85
	09/16/08	1568	Disbursement to member	360
	09/25/08	1569	Disbursement to member	180
	05/18/09	1652	Credit card provider	1,312
	06/15/09	1664	Credit card provider	216
	10/08/09	1694	Medical center	120
	10/10/09	1696	Training provider	300
	10/10/09	1700	Credit card provider	925
	10/17/09	1701	Insurance provider	78
			Total	<u>\$ 12,967</u>

*Adequate supporting documentation was not available at the time of the audit but was provided subsequent to the completion of audit fieldwork.

WEST RIDGE 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 and training certificates, 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: While notified of this condition in three prior audit reports, relief association officials again neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices and training certificates, made it impossible to determine if the expenditures were made in accordance with Act 84.

However, subsequent to the audit exit conference, on April 5, 2010, the relief association provided adequate documentation to support the validity of \$871 of the undocumented expenditures listed above, on June 2, 2010, received reimbursement from West Ridge Fire Department, the affiliated fire service organization, in the amount of \$12,096 for the balance of the undocumented expenditures.

Recommendation: We again 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.

WEST RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in three prior audit reports, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While a roster was maintained for equipment purchased dating back to 1985, it was incomplete since none of the equipment purchased since October 19, 2004, was recorded. The relief association purchased \$87,102 of equipment during the last audit period and expended more than \$290,000 on equipment and maintenance during the current audit period, none of which was recorded on the equipment roster. Furthermore, 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 three prior 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.

WEST RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 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 RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Insufficient Officer's Bond Coverage – Deductible Clause

Condition: During the current audit period, we determined that the relief association did not maintain bond coverage in a sufficient amount to cover the authorized disbursing officer. The officer's bond policy that was in effect during the audit period and as of the date of this report does not provide adequate coverage of the relief association's cash assets due to a \$2,500 deductible clause. While a deductible clause on an officer's bond policy is considered permissible, the stated deductible may not exceed \$1,000.

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.

It is the policy of this department that if an officer's bond insurance policy has a deductible clause that the deductible be stated at no more than \$1,000.

Cause: Relief association officials were aware of the necessity to maintain officer's bond coverage but were unaware that the deductible clause should not exceed \$1,000.

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

Recommendation: We recommend the relief association ensure that the disbursing officer is adequately covered by a faithful performance bond, as required by Act 84. Relief association officials should contact their insurance carrier and reduce the deductible in effect to an amount no higher than \$1,000. 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.

WEST RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act¹, it is the responsibility of the volunteer firefighters' relief association to invest its funds in a proper and prudent manner.

As these investments typically provide an income stream to the relief association for annual operations, it is generally sensible not to invest all VFRA money in one asset or asset class that places the principal at risk. In fact, state law requires VFRA's to "reasonably diversify investments, unless the [VFRA] reasonably determines that it is in the interest of the beneficiaries not to diversify..."².

By diversifying investments, the VFRA can help preserve capital, increase liquidity and decrease volatility. Diversification means spreading one's money among different investments; asset allocation diversifies total investments among different investment classes, such as stocks, bonds, government securities, and cash equivalents.

As of December 31, 2009, the VFRA had \$128,313 (fair value) or 61% of the VFRA's cash and investments in mutual funds.

The VFRA management should periodically review its specific cash needs and investment goals and ensure that its investments are allocated and diversified to prudently meet those needs and goals.

¹ 53 P.S. § 8506(c)(1997). This provision incorporates the "prudent investor rule" of the Probate, Estates, and Fiduciaries Code, 20 Pa. C.S.A. §7201 et seq.

² 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

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

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	\$ 13,761
Death benefits	9,000
Relief benefits	9,538
Tokens of sympathy and goodwill	581
Total Benefit Services	\$ 32,880
Fire Services:	
Equipment purchased	\$ 292,854
Training expenses	23,358
Fire prevention materials	21,572
Total Fire Services	\$ 337,784
Administrative Services:	
Miscellaneous administrative expenses	\$ 296
Total Administrative Services	\$ 296
Other Expenditures:	
Undocumented expenditures	\$ 12,967
Total Other Expenditures	\$ 12,967

WEST RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

West Ridge Volunteer Firefighters' Relief Association Governing Body:

Mr. James Jones Sr., President

Mr. Gilbert Keinath, Vice President

Mr. Russ Moran, Secretary

Mr. Harry Love Jr., Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Mr. Richard P. Figaski, Secretary
Millcreek 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.