



FALLS TOWNSHIP FIRE COMPANY NO. 1 FIREMAN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

FALLS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

BUCKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005 TO DECEMBER 31, 2007



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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 Falls Township 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.

BACKGROUND (Continued)

The Falls Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Falls Township	Bucks	\$83,694	\$83,917	\$90,174*

* A portion (\$90,113) of the 2007 state aid was deposited into a relief association account on January 2, 2008. The remaining balance (\$61) was deposited on February 25, 2008.

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

Falls Township Fire Company No. 1

Mr. Jeffrey Beck, President
FALLS TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Bucks County

We have conducted a compliance audit of the Falls Township 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, 2005 to December 31, 2007.

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 finding 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 Falls Township 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 applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objectives. We also tested transactions, confirmed the Falls Township Volunteer Firefighters' Relief Association's cash balance as of December 31, 2007, with the custodians of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our audit for the period January 1, 2005 to December 31, 2007, found, in all significant respects, the Falls Township Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report. The results of our tests indicated the Falls Township Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$117,264 and no investments.

Finding No. 1 – Inadequate Signatory Authority for the Disbursement of Funds

Finding No. 2 – Failure to Timely Deposit State Aid

Finding No. 3 – Undocumented Expenditures

Finding No. 4 – Duplicate Payment

Finding No. 5 – Failure to Maintain a Complete and Accurate Equipment Roster

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

April 25, 2008

JACK WAGNER
Auditor General

FALLS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure to Obtain a Pennsylvania Sales Tax Number

By obtaining a valid state sales tax exemption number and furnishing this number to all vendors from which the relief association purchases equipment.

FALLS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Signatory Authority for the Disbursement of Funds

Condition: The signature of only one relief association officer was used to disburse relief association funds from the checking account, although the signatures of at least two relief association officers are required. Specifically, during the audit, we detected nine checks drawn on the relief association's checking account during the audit period and one check drawn subsequent to the audit period that only contained one signature. In addition, one check drawn on the relief association's checking account during the audit period did not contain any signatures.

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

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required in order to bind the association by formal contract or to issue any negotiable instrument.

In addition, prudent business practice dictates that the relief association should have sufficient internal control procedures in place to ensure the signatures of at least two officers on all negotiable instruments, as well as controls to prohibit the pre-signing of blank checks. Good internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: Relief association officials were unaware of the Act 84 provision, which requires the signatures of at least two officers for the disbursement of funds.

Effect: As a result of the relief association not obtaining the required two signatures for all disbursements, assets were placed at greater risk of expenditures being made without a second relief association officer having an opportunity to verify the propriety of the expenditure. The absence of a second signature also increased the risk of errors occurring and going undetected, and increases the risk of misappropriation. We did not identify any improprieties with regard to any expenditures made using checks with only one signature.

Recommendation: We recommend the relief association officials adopt procedures that would require checks to be signed and co-signed only after the propriety of the expenditure has been determined and the payee, date, and amount has 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.

FALLS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Timely Deposit State Aid

Condition: The 2007 state aid allocation from Falls Township, in the amount of \$90,174, was not timely deposited into a relief association account because it was erroneously deposited into the affiliated fire company's bank account. On January 2, 2008, the fire company reimbursed the relief association \$90,113 in order to rectify the erroneous deposit. However, the amount reimbursed was \$61 less than the actual state aid allocation. On February 25, 2008, the relief association received reimbursement from the affiliated fire company, in the amount of \$61, for the balance of the 2007 state aid due to the relief association.

Criteria: The foreign fire insurance tax allocation was distributed to the municipal treasurer, who forwarded this state aid to the volunteer firefighters' relief association treasurer on October 16, 2007, within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Upon receipt of the state aid allocation, the relief association should ensure the funds are timely deposited into a relief association account.

Cause: The relief association failed to establish internal control procedures to ensure that all state aid received is deposited into a relief association account. The 706-B receipt form submitted by Falls Township indicated that the state aid check issued by the municipality was made payable to the affiliated fire company rather than the relief association.

Effect: As a result of the state aid not being timely deposited into a relief association bank account, the relief association was unable to use the funds for general operating expenses or for investment purposes. In addition, the failure to deposit receipts in a timely manner increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend the relief association officials adopt internal control procedures to ensure that all state aid is received. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS. A copy of this audit report is being furnished to the municipal officials of Falls Township so they are aware of the circumstances of the untimely deposit.

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.

FALLS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures made during the audit period:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
04/15/05	423	Insurance agency	\$ 247
06/06/05	435	Insurance agency	299
Total			<u>\$ 546</u>

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, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require that supporting documentation be maintained to verify the propriety of all financial transactions.

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

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

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices, to determine the validity of the expenditures or that the relief association be reimbursed \$546 for the 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.

FALLS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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.

FALLS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Duplicate Payment

Condition: On September 8, 2006, the relief association expended \$251 for the testing of 12 self-contained breathing apparatus (SCBA) cylinders. During the audit, we detected that on October 2, 2006, the relief association erroneously made a duplicate payment for testing the same 12 SCBA cylinders. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Adequate accounting and internal control procedures should include procedures to prevent duplicate payment of invoices.

Cause: The volunteer firefighters' relief association failed to establish internal control procedures which would require that all invoices or other billing documents be canceled or otherwise effectively marked to prevent duplicate payments.

Effect: As a result of this erroneous payment, the relief association paid \$251 for goods and services it did not receive. In addition, the relief association did not have use of these funds.

Recommendation: We recommend the relief association be reimbursed \$251 for the erroneous duplicate payment. The relief association should consider contacting the vendor to recover the duplicate payment. In addition, the relief association should establish accounting and internal control procedures to monitor future relief association 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.

FALLS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While a roster of relief association owned equipment was provided during the audit, it was incomplete and did not accurately identify equipment owned by the relief association. Specifically, the roster of equipment provided did not contain all items purchased by the relief association during the audit period. In addition, the roster provided did not indicate the quantity of items purchased, or serial numbers, where available, to accurately identify equipment owned. Furthermore, there was no indication that an annual inventory 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: Relief association officials failed 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 to account for the relief association's fixed assets.

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 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.

FALLS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2007

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	\$ 46,702
Death benefits	5,000
Tokens of sympathy and goodwill	2,457
Total Benefit Services	\$ 54,159
Fire Services:	
Equipment purchased	\$ 93,855
Equipment maintenance	26,535
Training expenses	3,680
Fire prevention materials	2,046
Total Fire Services	\$ 126,116
Administrative Services:	
Officer compensation	\$ 900
Other administrative expenses	1,674
Total Administrative Services	\$ 2,574
Total Investments Purchased	\$ 30,000
Other Expenditures:	
Erroneous deposit to fire company account*	\$ 30,000
Undocumented expenditures	546
Total Other Expenditures	\$ 30,546

* On May 9, 2007, the relief association erroneously transferred \$30,000 to the affiliated fire company. Subsequent to the audit period, on February 25, 2008, the relief association received a check in the amount of \$30,674 from the fire company for the \$30,000 balance due the relief association plus accrued interest.

FALLS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Falls Township Volunteer Firefighters' Relief Association Officers:

Mr. Jeffrey Beck, President

Mr. Clark Martin, Secretary

Mr. Michael Mudrick, Treasurer

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

Ms. Joan Rooth, Secretary
Falls 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.