

**MERCER ROAD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**BUTLER COUNTY**

**COMPLIANCE AUDIT REPORT**

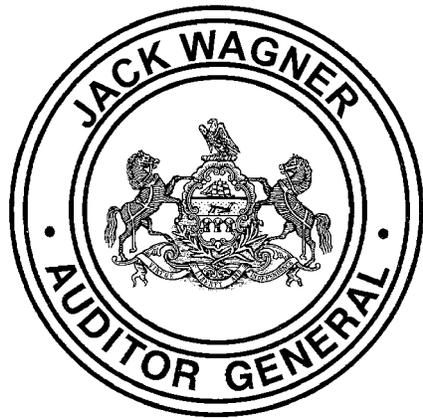
**FOR THE PERIOD**

**JANUARY 1, 2004 TO DECEMBER 31, 2006**



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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 Mercer Road 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 Mercer Road Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Butler Township	Butler	\$20,433	\$22,842	\$22,976

BACKGROUND (Continued)

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

Mercer Road Volunteer Fire Company, Inc.

Mr. Charles Glagola, President  
MERCER ROAD VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Butler County

We have conducted a compliance audit of the Mercer Road 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, 2004 to December 31, 2006. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

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 Mercer Road 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 Mercer Road Volunteer Firefighters' Relief Association's cash balance as of December 31, 2006, with the custodian of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our audit found that for the period January 1, 2004 to December 31, 2006, the Mercer Road Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2006, had a cash balance of \$51,173 and no investments. Additionally, the results of our tests indicated that, in all significant respects, the Mercer Road Volunteer Firefighters' Relief Association received and expended state aid and accumulated relief association funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report:

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

Finding No. 2 – Inadequate Signatory Authority for the Disbursement of Funds

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

October 24, 2007

JACK WAGNER  
Auditor General

MERCER ROAD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Mercer Road Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This issue is further discussed in the following finding noted in the Findings and Recommendations section of 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 the previously reported audit finding. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

MERCER ROAD 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 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 of relief association owned equipment was provided during the current audit, it did not accurately identify equipment owned by the relief association and there was no indication that an annual inventory of the equipment was performed to account for the relief association's fixed assets. Specifically, the roster of equipment that was provided did not contain all current period purchases.

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 in three prior audit reports of the necessity to maintain a cumulative equipment roster, relief association officials neglected to establish adequate internal control procedures over fixed assets to include a detailed roster all equipment owned by the relief association 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 inventory be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

MERCER ROAD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 (Continued)

Management's Response: Relief association management agreed with the finding and indicated they will take action to comply with the recommendation.

MERCER ROAD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – 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 relief association's money market checking account, although the signatures of at least two relief association officers are required. Specifically, we detected 10 checks drawn on the relief association's checking account during the current financial period that only contained the signature of one officer.

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, Article VII, Section 1, of the relief association's bylaws states:

The signatures of at least two (2) officers, one of whom shall be the treasurer, shall be required for the issuance of relief association checks, withdrawal from any association account, the redemption of any association investment, or on any other negotiable instrument issued by the association.

Cause: Relief association officials were unaware of the Act 84 and corresponding relief association bylaw provisions that require the signatures of at least two officers for the disbursement of funds.

Effect: As a result of the relief association not obtaining two signatures for all disbursements, assets were placed at greater risk of misappropriation.

Recommendation: We recommend the relief association officials adopt procedures which would require the signatures of at least two officers on all relief association negotiable instruments, as required by Act 84 and the relief association's bylaws. 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.

MERCER ROAD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2006

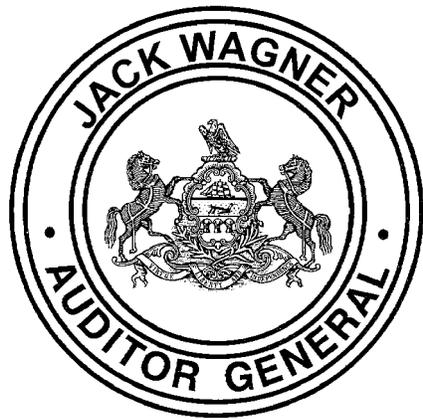
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 8,456
Total Benefit Services	\$ 8,456
Fire Services:	
Equipment purchased	\$ 22,633
Equipment maintenance	2,061
Training expenses	135
Total Fire Services	\$ 24,829
Total Investments Purchased	\$ 20,000
Other Expenditures:	
Payments on joint purchased agreement	\$ 4,444
Total Other Expenditures	\$ 4,444



MERCER ROAD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Mercer Road Volunteer Firefighters' Relief Association Officers:

Mr. Charles Glagola, President

Ms. Jennifer Swartzback, Secretary

Mr. John J. Lutz, Treasurer

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

Ms. Donna Donaldson, Secretary  
Butler 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](http://www.auditorgen.state.pa.us).