



MIDLAND FIREMANS RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

MIDLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

BEAVER 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 Midland 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 Midland 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> |
|---------------------|---------------|-------------|-------------|-------------|
| Midland Borough | Beaver | \$13,986 | \$14,055 | \$14,056 |

BACKGROUND (Continued)

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

Midland Volunteer Fire Department

Mr. Howard Sweed, President
MIDLAND VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Beaver County

We have conducted a compliance audit of the Midland 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. 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 Midland 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 Midland Volunteer Firefighters' Relief Association's investment balance and the 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 Midland 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 Midland Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$39,965 and an investment balance with a fair value of \$50,000.

Finding No. 1 – Inadequate Relief Association Bylaws

Finding No. 2 – Inadequate Investment Records

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 4 – Failure to Maintain a Complete and Accurate Membership Roster

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

May 9, 2008

JACK WAGNER
Auditor General

MIDLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Inadequate Financial Record-Keeping System

By preparing financial journals and ledgers which meet the minimum financial record-keeping requirements of this department. However, the relief association still did not maintain adequate records of investment sales and purchases, as discussed in Finding No. 2 of this report.

MIDLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the Midland Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 84 at 53 P.S. § 8505(c). Specifically, the bylaws do not address the requirement that one of the required signatures shall be the disbursing officer in order to bind the association by formal contract or issue any negotiable instrument.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that the relief association's bylaws shall include the following provision:

- Require the signatures of at least two officers, one of whom shall be the disbursing officer, in order to bind the relief association by formal contract or to issue any negotiable instrument. (emphasis added)

Cause: Relief association officials were unaware that their bylaws did not properly address the above provision required by Act 84.

Effect: As a result of the mandatory provision not being included in the bylaws, the relief association may conduct its affairs without proper authorization. Although the disbursing officer's signature was present on all checks, by not having this mandatory provision formally defined in the relief association bylaws, the membership may not be aware that the provision is required by Act 84.

Recommendation: We recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 84 and properly authorize the operating procedures 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 and indicated they will take action to comply with the recommendation.

MIDLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Investment Records

Condition: Relief association officials did not maintain adequate records of investments purchased and sold, as well as the source of investment income. Specifically, all investment transactions were not recorded on an investment roster, nor were they identified in the minutes of the relief association's meetings.

Criteria: Act 84 at 53 P.S. § 8505 (a) states, in part, that the relief association:

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

Additionally, sound accounting procedures for investment purchases and sales should include the recording of the following:

- Date of purchase or sale of the security.
- Identification number of the security.
- Rate of interest.
- Date of receipt of interest income.
- Date of maturity.

Cause: Relief association officials failed to establish adequate accounting procedures to record the transactions of each investment.

Effect: The failure to maintain an adequate record-keeping system for investment transactions prevents officials from effectively monitoring the relief association's financial position.

Recommendation: We recommend the relief association take the necessary steps to record all investments purchased and sold, and identify the source and amount of investment income so that all investment transactions are 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.

MIDLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 3 – 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 maintained in prior years, the roster has not been updated since April 2005. As such, there was no indication that annual inventories were 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.

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.

MIDLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Maintain a Complete and Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members. While a membership roster was provided, it did not include each member's full name, complete mailing address, membership classification, and date of birth and membership.

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:

- Name of each member.
- Member's mailing address.
- Date of birth.
- Date of membership.
- Membership classification.

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

Cause: Relief association officials were unaware that they should maintain a comprehensive roster of relief association members.

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.

MIDLAND 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 | \$ 12,687 |
| Tokens of sympathy and goodwill | 383 |
| Total Benefit Services | <u>\$ 13,070</u> |
| Fire Services: | |
| Equipment purchased | \$ 20,219 |
| Equipment maintenance | 2,744 |
| Training expenses | 3,891 |
| Total Fire Services | <u>\$ 26,854</u> |
| Administrative Services: | |
| Officer compensation | \$ 360 |
| Other administrative expenses | 312 |
| Total Administrative Services | <u>\$ 672</u> |

MIDLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Midland Volunteer Firefighters' Relief Association Officers:

Mr. Howard Sweed, President

Ms. Jeanne Hupp, Secretary

Ms. Tracy Sweed, Treasurer

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

Ms. Diane Kemp, Secretary
Midland 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.