

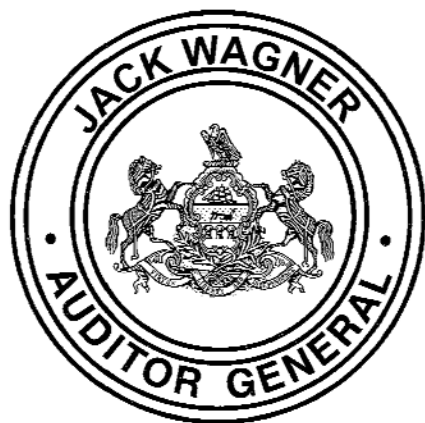
ATGLEN BOROUGH VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION

CHESTER COUNTY

COMPLIANCE AUDIT REPORT

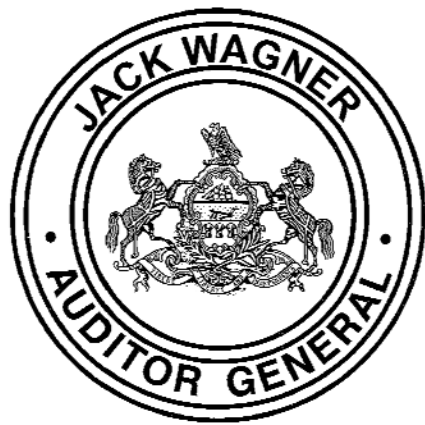
FOR THE PERIOD

JANUARY 1, 2006 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, 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 Atglen Borough Volunteer Firefighters Relief Association, herein referred to as Atglen 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 Atglen Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Atglen Borough	Chester	\$ 7,603	\$ 7,687	\$ 7,896	\$ 7,329
West Sadsbury Township	Chester	\$10,563	\$11,091	\$11,077	\$10,241

BACKGROUND (Continued)

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

Atglen Fire Company

Ms. Laura Searl, President
ATGLEN VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Chester County

We have conducted a compliance audit of the Atglen 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, 2006 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 Atglen 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 Atglen Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Atglen 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, 2006 to December 31, 2009, found the Atglen Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the three findings contained in our prior audit report. However, the Atglen Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining two findings 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 Atglen Volunteer Firefighters' Relief Association did not, in all significant respects, 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. The results of our tests also indicated the Atglen Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$24,497 and no investments.

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

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

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

December 13, 2010

JACK WAGNER
Auditor General

ATGLEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Atglen Volunteer Firefighters' Relief Association has complied with one of the three prior audit findings and recommendations:

- Failure to Maintain Officer's Bond Coverage

By maintaining an officer's bond in an amount greater than the balance of cash assets.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Atglen Volunteer Firefighters' Relief Association has not complied with two of the three prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

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

- Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

We are concerned with the volunteer firefighters' relief association's failure to correct the previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

ATGLEN 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 our prior audit period, the relief association officials, again, did not maintain a complete and accurate roster of equipment owned by the relief association. While an equipment roster was provided, it was outdated because it did not include any equipment purchases since 2002. Equipment purchased since 2002 totaled \$77,962. Furthermore, the relief association failed to conduct annual physical inventories and document the results.

Criteria: Sound business practices dictate 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 equipment roster of all relief association equipment should include the following:

- Types of equipment purchased;
- Dates of purchase;
- Unit costs;
- Names of suppliers;
- Serial numbers, if applicable;
- Current locations of items;
- Final dispositions of sold or damaged equipment; and
- Evidence of the performance and results of an annual physical inventory.

Cause: Relief association officials failed to establish adequate internal control procedures over fixed assets requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The failure to properly record \$77,962 in equipment purchased since 2002, in a detailed equipment roster, prevents officials from effectively monitoring the relief association's equipment purchases and expenditure of state and accumulated relief funds. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of fixed assets prevents adequate accountability for, and safeguarding of, relief association fixed assets.

Recommendation: We again recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

ATGLEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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.

ATGLEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Condition: As cited in our prior audit report, the relief association did not provide adequate supporting documentation for the following prior audit period expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
03/23/04	471	Equipment vendor	\$ 185
07/29/04	476	Equipment vendor	42
02/16/05	1005	Payment to fire company	<u>1,326</u>
Total			<u>\$ 1,553</u>

While we did not detect any undocumented expenditures during the current audit period, the relief association, again, failed to provide adequate supporting documentation for the above listed prior audit period expenditures.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), [FN1] known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Without adequate supporting documentation, such as invoices, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, good business practices dictate 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 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

ATGLEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

However, subsequent to the date of this audit report, on December 30, 2010, the relief association was reimbursed \$1,553 for the prior audit period 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.

ATGLEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

The condition reported in Finding No. 1 may lead to a total withholding of state aid in the future because of the significant dollar amount of equipment purchased but not added to the equipment roster and the relief association's continued failure to address this previously reported finding. However, such action will not be considered if sufficient documentation is provided within 60 days evidencing that relief association officials have performed a physical inventory of relief association owned equipment and ensured that all relief association owned equipment is included on the equipment roster. 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.

ATGLEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2009

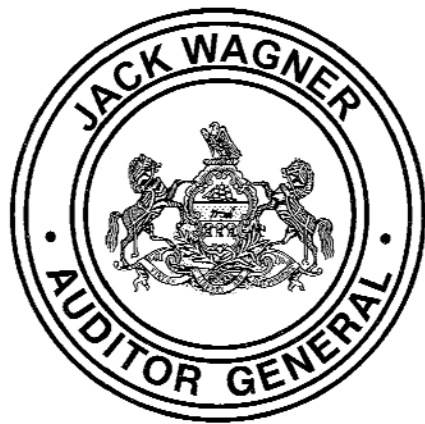
Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The 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	\$ 16,052
Tokens of sympathy and goodwill	437
Total Benefit Services	\$ 16,489
Fire Services:	
Equipment purchased	\$ 52,008
Equipment maintenance	8,592
Training expenses	5,700
Total Fire Services	\$ 66,300
Administrative Services:	
Erroneous deposit return	\$ 5,327
Other administrative expenses	717
Total Administrative Services	\$ 6,044
Total Investments Purchased	\$ 20,000



ATGLEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Atglen Volunteer Firefighters' Relief Association Governing Body:

Ms. Laura Searl, President

Mr. William Winters, Jr., Vice President

Ms. Stephanie Klingler, Secretary

Mr. John Assetto, Treasurer

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

Ms. P. Gail Murphy, Secretary
Atglen Borough

Ms. Cynthia Mammarella, Secretary
West Sadsbury 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.