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Article for *Minnesota Fire Chief*

Safeguarding Volunteer Fire Relief Association Funds

By Rebecca Otto, State Auditor

As a relief association board member, the last thing you want to have happen under your watch is theft or misuse of relief association funds. Some think, "It would never happen in our community." Unfortunately, while rare, unlawful use of relief association funds has occurred.

Prevention of Loss or Misuse

A strong control environment is essential for safeguarding public funds. Internal controls are a set of procedures designed to protect a relief association from loss or misuse of its funds. Sound internal controls help ensure that transactions are properly authorized and the information contained in the financial reports is reliable.

Segregation of duties is an important internal control to prevent unauthorized transactions. Ideally, no single official or employee should be able to:

1. Authorize a transaction;
2. Record the transaction in the entity's books; and
3. Obtain custody of the item resulting from the transaction.

When employee responsibilities are arranged so that the work of one employee is checked by another, it is called "segregation of duties." To put it another way, a person should not be in a position to commit an irregularity and cover it up.

Examples of duties that should be performed by separate individuals include receipting collections, posting collections to registers, and making bank deposits or signing checks and reconciling the bank accounts.

For volunteer fire relief associations, segregation of duties could include having an

individual other than the relief association's treasurer receive and review unopened bank statements, reconcile the bank accounts, and review cancelled checks for any unusual activity. "Trust, but verify." It keeps everyone safe.

If during a review, a discrepancy is found, follow up is critical. Examples of discrepancies that would merit follow up include any difference between actual performance and anticipated results, receipts not matching deposits, disbursements to unknown or unapproved vendors, one signature on checks or pre-signed blank checks, and gaps in receipt or check numbers.

Another important component of a strong control environment is the prohibition of the use of relief association funds for any personal reason – even in an emergency. It is not acceptable for an employee to "borrow" funds temporarily from relief association funds. No "I.O.U.s" from employees should be allowed – ever.

A relief association should discuss internal controls with its auditor, who may have additional helpful suggestions based on his or her experience with your specific association.

Reporting Requirement if Loss/Misuse Occurs

Legislation was enacted in May 2013 requiring public employees and officials of local public pension plans, including volunteer fire relief associations, to report evidence of theft or misuse of public funds. Members and trustees of volunteer fire relief associations are considered to be public employees or officials in this context. Local public pension plan members and trustees now have the same requirement to report as local government employees and local officials.

Under the new law, whenever a member or trustee of a local public pension plan discovers evidence of theft, embezzlement, unlawful use of public funds or property, or misuse of public funds, the member or trustee must promptly report to law enforcement and promptly report in writing to the Office of the State Auditor a detailed description of the alleged incident or incidents. "Prompt" reporting means that the OSA should be contacted when the evidence is first discovered. The report may include information that is classified as not public data.

Information that could reasonably be used to determine the identity of the public employee or official making a mandatory report to the OSA is classified as "private" data under Minnesota law. In this way, Minnesota law is designed to protect the identity of the reporter to encourage public employees and officers to come forward with evidence without fear of retribution or retaliation.

Tools for Reporting

To make the reporting obligation more convenient, a "Report a Concern to the Office of the State Auditor" form can be found on the OSA website at www.auditor.state.mn.us,

under the “Investigations” tab as “Report a Concern.” Use of this form is not required. However, it provides an outline for making a report and for providing the information needed.

Additional Information

A Statement of Position is available on the OSA website that provides additional information on the importance of internal controls. The Statement can be found by selecting the “For Local Officials” menu item and then clicking on “Statements of Position.” The Statement titled “The Importance of Internal Controls” can be found under the “Internal Controls” heading.