



**MIDDLEBURY TOWNSHIP VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION**

**TIOGA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008 TO DECEMBER 31, 2011**

**RELEASED MARCH 2014**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**





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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Mr. Doyle Swetland, President  
MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Tioga County

We have conducted a compliance audit of the Middlebury 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, 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, 2008 to December 31, 2011.

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 state aid 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 Middlebury Township 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 Middlebury Township Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Middlebury Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, 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, 2008 to December 31, 2011, found the Middlebury Township Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the three findings contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Middlebury Township Volunteer Firefighters' Relief Association did not, in all significant respects, receive state aid 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 later in this report. Therefore, the Middlebury Township Volunteer Firefighters' Relief Association will be subject to the potential withhold of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report. The results of our tests also indicated the Middlebury Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$32,772 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Inadequate Minutes of Meetings

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Undocumented Loans

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

July 18, 2013

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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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 Middlebury 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 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.

BACKGROUND (Continued)

The Middlebury Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Charleston Township	Tioga	\$6,262	\$5,678	\$6,391	\$10,161
Delmar Township	Tioga	\$2,000	\$1,750	\$2,000	\$ 4,000
Middlebury Township	Tioga	\$7,857	\$7,049	\$7,934	\$12,683

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

Middlebury Township Volunteer Fire Department, Inc

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Middlebury Township Volunteer Firefighters' Relief Association has not complied with 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 – Inadequate Minutes of Meetings
- Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster
- Noncompliance With Prior Audit Recommendation – Undocumented Loans

Even though the relief association obtained reimbursement of \$24,300 from the affiliated fire department for the \$30,300 of undocumented loans made during the prior audit period, the relief association made \$19,500 of undocumented loans with the affiliated fire department for the current audit period, as discussed in Finding No. 3 contained in this report.

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.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance with Prior Audit Recommendation –  
Inadequate Minutes of Meetings

Condition: As cited in our prior two audit reports, the relief association failed to maintain detailed minutes of meetings as required by Act 118. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period. While the relief association's bylaws call for quarterly meetings, the relief association only maintained minutes for 12 out of 16 quarters of the audit period.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

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

Article 2, Section 1, of the relief association bylaws states, in part:

Regular meetings of this association shall be held on the second Monday of March, June, September and December, immediately following the regular meeting of the Middlebury Township Volunteer Fire Department.

Cause: Even though notified of this condition during our prior audit, relief association officials, again, neglected to maintain detailed minutes of meetings as required by Act 118. Relief association management stated that there was a change in officers and the minutes were misplaced.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Furthermore, the relief association's continued failure to maintain detailed minutes of meetings as required by Act 118 may lead to a total withholding of state aid, as detailed on page 10 of this report.

Recommendation: We, again, recommend the relief association maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

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.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS – (Continued)

Finding No. 2– Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our two prior audit reports, the relief association officials failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided by relief association officials, this listing was incomplete, and did not include any items purchased in 2008. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all of the relief association's owned equipment. Equipment purchased during 2008 totaled \$18,213.

Criteria: Prudent business practice dictates 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 equipment. 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: Even though notified of this condition during our prior audit, a turnover in relief association officers resulted in the new officers being unaware of the requirements for maintaining an equipment roster. In addition the relief association officials, again, failed to establish adequate internal control procedures over equipment requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

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 physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS – (Continued)

Finding No. 2 – (Continued)

Furthermore, the relief association's continued failure to properly record equipment purchases in a detailed equipment roster and failure to perform an annual physical inventory of such equipment may lead to a total withholding of state aid, as detailed on page 10 of this report.

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.

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.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS – (Continued)

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Undocumented Loans

Condition: As disclosed in the Status of Prior Finding Section of this report, although the relief association received \$24,300 in outstanding loan payments from the affiliated fire department, there remains an outstanding loan balance of \$6,000 plus outstanding interest due amounting to \$1,342. In addition, during the current audit period, the relief association loaned the affiliated fire department an additional \$5,000 on February 2, 2009, \$5,000 on February 12, 2009, and \$9,500 on January 12, 2010, respectively. And although an amortization schedule based on a 3 percent interest rate was available, there was no formal loan agreement between the relief association and the affiliated fire company as required by Act 118. The relief association received payments from the fire department towards the loans made during the current audit period leaving an unpaid balance of \$238.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any obligation of an incorporated fire company, provided that the obligation is: (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

In addition, prudent business practice requires such terms of the obligation be placed into a written loan agreement.

Cause: Even though notified of this condition during our prior audit, relief association officials, again, failed to ensure that loans to the affiliated fire company were sufficiently documented to ensure compliance with Act 118 provisions.

Effect: Failure to adequately document loans through formal written agreements places relief association's investments at greater risk.

Furthermore, the relief association's continued failure to ensure that loans to the affiliated fire company are sufficiently documented to ensure compliance with Act 118 provisions may lead to a total withholding of state aid, as detailed on page 10 of this report.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS – (Continued)

Finding No. 3 – (Continued)

However, subsequent to the audit period and as a result of our audit, the relief association received reimbursement from the Middlebury Township Volunteer Fire Department, Inc. on January 7, 2012, in the amount of \$238 for the current audit period outstanding loan balance. In addition, the relief association executed a formal written loan agreement, on March 11, 2013, with the Middlebury Township Volunteer Fire Department, Inc., in the amount of \$7,342, requiring payments over 24 months, at 3 percent interest rate, for the prior audit period's outstanding loan balance. However, this formal loan agreement failed to include collateral equal to at least 150% of the amount of the obligation as prescribed by Act 118.

Recommendation: We recommend that the loan agreement executed between the relief association and the affiliated fire company on March 11, 2013, be amended to address collateral requirements. In addition, we, again, recommend that the relief association and affiliated fire company ensure that all future formal written loan agreements are signed by both parties and specify the payment schedule and the interest rate for all loans made by the relief association. Furthermore, each loan agreement must also specifically identify the collateral equal to at least 150 percent of the amount of the obligation to protect the investment as required by Act 118 at 35 Pa.C.S. § 7416(c)(3). If such action is not taken, we recommend that the loan be immediately liquidated. 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.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
POTENTIAL WITHHOLD OF STATE AID

Conditions of repeat findings, such as those reported in Findings No. 1, 2, and 3 contained in this report, will lead to a total withholding of state aid in the future unless these findings are corrected. However, such action will not be taken if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. 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.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2011

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	\$ 15,071
Relief benefits	520
Total Benefit Services	\$ 15,591
Fire Services:	
Equipment purchased	\$ 47,438
Equipment maintenance	12,618
Training expenses	1,628
Total Fire Services	\$ 61,684
Administrative Services:	
Miscellaneous administrative expenses	\$ 900
Total Administrative Services	\$ 900
Total Investments Purchased:	\$ 19,500

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Middlebury Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Doyle Swetland, President

Mr. Shawn Keister, Vice President

Mr. Brian Baker, Secretary

Mr. Carl J. Butler, Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report.

Ms. Patricia A. Reese, Secretary  
Charleston Township

Ms. Shirley W. Borden, Secretary  
Delmar Township

Ms. Julie A. Owlett, Secretary  
Middlebury Township

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).