



BIGLER TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

CLEARFIELD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008 TO DECEMBER 31, 2010



CONTENTS

Background.....	1
Letter From the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Deposit State Aid.....	6
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures	7
Finding No. 3 – Undocumented Loans	9
Finding No. 4 – Failure to Maintain a Complete and Accurate Membership Roster	11
Accompanying Expenditure Information	12
Report Distribution List	13



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 Bigler Township Volunteer Firemen's Relief Association, herein referred to as Bigler 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. The Bigler 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>
Bigler Township	Clearfield	\$6,921	\$6,279	\$7,068
Knox Township	Clearfield	\$3,608	\$3,434	\$3,866

BACKGROUND (Continued)

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

Madera Volunteer Fire Company



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Larry Hayward, Sr., President
BIGLER TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Clearfield County

We have conducted a compliance audit of the Bigler 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, 2010.

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 Bigler 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 Bigler 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 Bigler Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2010, 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, 2010, found the Bigler Township Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the 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 Bigler Township Volunteer Firefighters' Relief Association, in all significant respects, received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except 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 Bigler Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$4,457 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Deposit State Aid

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

Finding No. 3 – Undocumented Loans

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

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

November 3, 2011

EUGENE A. DEPASQUALE
Auditor General

BIGLER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Bigler Township Volunteer Firefighters' Relief Association has not complied with the following 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 Deposit State Aid

- 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.

BIGLER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Deposit State Aid

Condition: The relief association failed to take timely corrective action to address this prior audit period finding. As cited in our prior audit report, the relief association had failed to deposit the 2007 state aid distributed by Knox Township, in the amount of \$3,495, into a relief association account. The state aid was erroneously deposited into a fire company account. During our current audit, we found that the relief association's 2007 state aid had not been transferred from the fire company's account to a relief association's account.

Criteria: The foreign fire insurance tax allocation was distributed to the municipal treasurer, who forwarded this state aid to the volunteer firefighters' relief association treasurer within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Upon receipt of the state aid allocation, the relief association should ensure the funds are timely deposited into a relief association account.

Cause: Even though notified of this condition during our prior audit, the relief association, again, neglected to ensure the 2007 state aid received was deposited into a relief association account.

Effect: As a result of the state aid not being deposited, the relief association was unable to use the funds for general operating expenses or for investment purposes. In addition, the failure to deposit receipts in a timely manner can lead to a greater risk that funds could be lost or misappropriated.

However, as a result of our current audit and subsequent to the audit period, on November 1, 2011, the relief association received, and deposited, from the fire company check number 11258 totaling \$3,495.

Recommendation: We, again, recommend the relief association should establish accounting and internal control procedures to ensure that all findings are timely and appropriately addressed. 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 that they have taken action to comply with the recommendation.

BIGLER TOWNSHIP 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, again, was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Payee</u>	<u>Amount</u>
10/10/06	231	Training provider	\$ 80
10/21/06	232	Training provider	200
Total			<u>\$ 280</u>

During the current audit, the relief association, again, was unable to provide supporting documentation for the prior audit undocumented expenditures. In addition, during the current audit period, on January 26, 2009, the relief association issued check number 257 totaling \$275 to an individual for as reimbursement for a training course without having all of the required supporting documentation.

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: While notified of this condition during our prior audit, relief association officials, again, neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

BIGLER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

However, subsequent to the audit period, on November 1, 2011 and November 3, 2011, the relief association received and deposited from the fire company checks totaling \$280 and \$275, respectively, for the undocumented expenditures.

Recommendation: We, again, recommend the relief association officials maintain supporting documentation for all future expenditures. Furthermore, we recommend the relief association discontinue practice of reimbursing for training prior to having all required supporting documentation. 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 that they have take action to comply with the recommendation.

BIGLER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Undocumented Loans

Condition: During the audit period, the relief association made the following loans to the affiliated fire company without a formal written loan agreement.

<u>Date</u>	<u>Amount</u>
12/10/08	\$ 7,517
05/21/09	480
11/30/09	<u>1,650</u>
	<u>\$ 9,647</u>

During the audit period, the fire company paid \$9,230 to the relief association leaving an outstanding balance at December 31, 2010 of \$417.

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

Cause: Relief association officials were unaware that the loan to the fire company must be documented to ensure compliance with Act 118 provisions.

Effect: Failure to adequately document the loan through a formal written agreement places the investment at greater risk.

However, as a result of the audit and subsequent to the audit period, on February 28, 2011, the relief association received and deposited from the Madera Volunteer Fire Company the amount of \$1,000 to satisfy the outstanding loan balance of \$417. Due to the lack of a formal written agreement, the overpayment of \$583 is deemed interest owed to the relief association.

BIGLER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: For all future loans to the fire company, we recommend the relief association and fire company prepare a formal written loan agreement, signed by both parties, specifying the payment schedule and the interest rate. The loan agreement must also specifically identify the collateral 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 that they have taken action to comply with the recommendation.

BIGLER TOWNSHIP 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.

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:

- Names of each member;
- Members' mailing addresses;
- Dates of births;
- Dates of memberships; and
- Membership classifications.

In addition, when warranted, 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.

BIGLER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2010

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	\$ 5,140
Death benefits	200
Total Benefit Services	\$ 5,340
Fire Services:	
Equipment purchased	\$ 5,411
Equipment maintenance	9,162
Training expenses	275
Total Fire Services	\$ 14,848
Administrative Services:	
Miscellaneous administrative expenses	\$ 68
Total Administrative Services	\$ 68
Total Investments Purchased:	\$ 9,647
Other Expenditures:	
Principal payments on lease-financing	\$ 11,870
Interest payments on lease-financing	1,911
Total Other Expenditures	\$ 13,781

BIGLER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Bigler Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Larry Hayward, Sr., President

Mr. Raymond Varner, Vice President

Ms. Tracey Southern-Moskel, Secretary

Mr. Dwayne V. Delattre, Treasurer

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

Ms. Jeanette C. Holden, Secretary
Bigler Township

Mr. J. Gregory Slopey, Secretary
Knox 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.