

**PENN TOWNSHIP BUTLER COUNTY FIREMEN'S RELIEF ASSOCIATION**

**HEREIN REFERRED TO AS:**

**PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**BUTLER COUNTY**

**COMPLIANCE AUDIT REPORT**

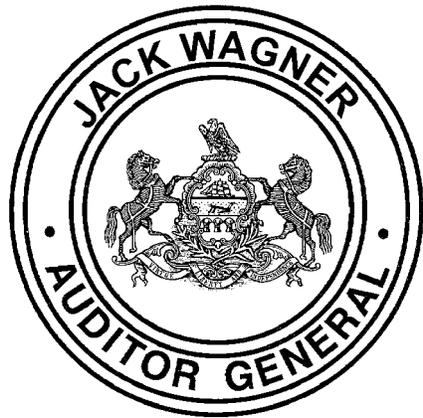
**FOR THE PERIOD**

**JANUARY 1, 2005 TO DECEMBER 31, 2008**



## CONTENTS

|   |    |
|---|----|
| Background.....   | 1  |
| Letter From the Auditor General .....   | 3  |
| Status of Prior Finding.....  | 5  |
| Findings and Recommendations:   |    |
| Finding No. 1 – Undocumented Expenditures.....                                    | 6  |
| Finding No. 2 – Unauthorized Expenditures .....                                   | 8  |
| Finding No. 3 – Inadequate Financial Record-Keeping System .....                  | 10 |
| Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster..... | 11 |
| Finding No. 5 – Inappropriate Ownership of Assets .....                           | 12 |
| Accompanying Expenditure Information .....  | 13 |
| Report Distribution List .....  | 15 |



## 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 Penn 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 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 Penn Township 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> | <u>2008</u> |
|---------------------|---------------|-------------|-------------|-------------|-------------|
| Penn Township       | Butler        | \$39,681    | \$40,072    | \$39,545    | \$40,523    |

BACKGROUND (Continued)

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

Penn Township Volunteer Fire Department

Mr. Russell L. Sarver, President  
PENN TOWNSHIP VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Butler County

We have conducted a compliance audit of the Penn 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, 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, 2008.

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 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 Penn Township 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 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 Penn 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 Penn Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, 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, 2005 to December 31, 2008, found, in all significant respects, the Penn Township Volunteer Firefighters' Relief Association took appropriate corrective action to address the finding contained in our prior audit report and received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed later in this report. The results of our tests also indicated the Penn Township Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$45,978 and an investment balance with a fair value of \$9,831.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Inadequate Financial Record-Keeping System

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

Finding No. 5 – Inappropriate Ownership of Assets

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

March 31, 2009

JACK WAGNER  
Auditor General

PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Inadequate Signatory Authority for the Disbursement of Funds

By requiring more than one signature on all negotiable instruments.

PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

| <u>Date</u> | <u>Check No.</u> | <u>Description</u>   | <u>Amount</u>   |
|-------------|------------------|----------------------|-----------------|
| 05/26/07    | 378              | Fire school training | \$ 715          |
| 02/11/08    | 393              | Fire school training | 840             |
| 05/07/08    | 397              | Fire school training | <u>120</u>      |
| Total       |                  |                      | <u>\$ 1,675</u> |

Criteria: Act 84 at 53 P.S. § 8507(a) states, in part:

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

Without adequate supporting documentation, such as invoices, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practice requires 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 and training certificates, made it impossible to determine if the expenditures were made in accordance with Act 84 at 53 P.S. § 8506(e). In addition, the failure to maintain adequate documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices, to determine the validity of the expenditures or that the relief association be reimbursed \$1,675 for the undocumented expenditures. We also 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.

PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items to attend the Harrisburg Fire Expo which is not authorized by Act 84:

| <u>Date</u> | <u>Check No.</u> | <u>Description</u>    | <u>Amount</u> |
|-------------|------------------|-----------------------|---------------|
| 05/09/2005  | 322              | Gas, tolls, and meals | \$ 200        |
| 05/22/2005  | 321              | Hotel bill            | 699           |
|             |                  | Total                 | <u>\$ 899</u> |

Criteria: Act 84 at 53 P.S. § 8506(e) (1) and (10) states:

The funds of any volunteer firefighters' relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of its affairs including legal fees and including but not by way of limitation the rental or purchase of offices, the payment of reasonable compensation of any needed employees, and the purchase of office equipment and supplies.
  
- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.

Since the Department of the Auditor General is legislatively prohibited from giving pre-audit advice, an interagency agreement with the Department of Community and Economic Development (DCED) had been established whereby the DCED provided interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." Harrisburg Fire Expo expenditures have been deemed by DCED to not qualify as authorized expenditures. Consequently, these disbursements for the Harrisburg Fire Expo are not authorized under Act 84.

Cause: Relief association officials were unaware that the aforementioned expenditures were not authorized by Act 84.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 84.

However, as a result of our audit, on April 21, 2009, the relief association was reimbursed by the Penn Township Volunteer Fire Department, in the amount of \$899, for the above authorized expenditures.

PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend the relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) to aid them in determining the propriety of 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.

PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Financial Record-Keeping System

Condition: The relief association's financial record-keeping system did not provide effective control over cash receipts, disbursements, and monetary assets, and did not meet the minimum requirements of maintaining financial records established by this department. The following are the noted deficiencies:

- a journal was not maintained to record the receipts and disbursements of the relief association;
- a ledger was not maintained to record the transactions of each of the relief association accounts; and
- documentation to support various expenditures was not available for examination at the time of the audit.

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.

In addition, an adequate system of accounting and record keeping is a prerequisite for the sound administration of relief association assets.

Cause: Relief association officials were unaware of their various record-keeping responsibilities.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations and can lead to an increased risk of funds being misappropriated.

Recommendation: We recommend the relief association establish and maintain a financial record-keeping system which meets the minimum record-keeping requirements of this department. 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.

PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – 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 provided for the years 1990 through 2004, the roster did not include equipment purchased during or subsequent to the financial period under review. Also, there was no indication that an inventory of the equipment was 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 conduct an annual equipment inventory prevents the adequate accountability for, and adequate 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 they perform 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.

PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Inappropriate Ownership of Assets

Condition: As of December 31, 2008, the relief association held a checking and savings account, with a total market value of \$45,978 and a certificate of deposit with a balance of \$9,831, which were inappropriately registered under the fire company's federal tax identification number rather than the relief association's tax identification number. These investments represent 100 percent of the relief association's total assets.

Criteria: Sound business practice dictates that the relief association maintains ownership of all of its investments and cash accounts as a means of safeguarding its assets from unauthorized use or disposition.

Cause: The relief association failed to establish adequate internal control procedures to ensure that all of its investments and cash accounts are registered under the relief association's name and federal tax identification number.

Effect: As a result of its investments and cash accounts being inappropriately registered under another entity's name and federal tax identification number, these relief association assets were not properly safeguarded.

Recommendation: We recommend the relief association secure ownership rights to all monetary assets. This requirement can be accomplished by ensuring that all investments and cash accounts are registered under the relief association's name and federal tax identification number. 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.

PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2008

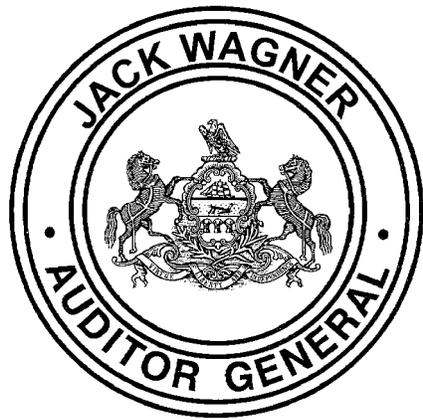
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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                    | \$ 28,216 |
| Death benefits                        | 4,000     |
| Total Benefit Services                | \$ 32,216 |
|                                       |           |
| Fire Services:                        |           |
| Equipment purchased                   | \$ 83,360 |
| Equipment maintenance                 | 4,676     |
| Training expenses                     | 4,756     |
| Fire prevention materials             | 6,126     |
| Total Fire Services                   | \$ 98,918 |
|                                       |           |
| Administrative Services:              |           |
| Miscellaneous administrative expenses | \$ 1,263  |
| Total Administrative Services         | \$ 1,263  |
|                                       |           |
| Other Expenditures:                   |           |
| Principal payments on loan            | \$ 58,229 |
| Interest payments on loan             | 3,980     |
| Undocumented expenditures             | 1,675     |
| Total Other Expenditures              | \$ 63,884 |



PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Penn Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Russell L. Sarver, President

Mr. Charlie May, Vice President

Mr. Kevin Kellerman, Secretary

Ms. Joanne Foster, Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Linda D. Zerfoss, Secretary  
Penn 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](http://www.auditorgen.state.pa.us).