



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

BUTLER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2011

JULY 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



PENN TOWNSHIP BUTLER COUNTY FIREMEN'S RELIEF ASSOCIATION

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Commonwealth of Pennsylvania
Department of the Auditor General
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Charles A. May, 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, 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, 2009 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 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 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 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, 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, 2009 to December 31, 2011, found the Penn Township Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the five findings contained in our prior audit report. However, the Penn Township Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining 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 Penn Township 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; therefore, the Penn Township Volunteer Firefighters' Relief Association will be subject to the potential withhold of its upcoming state aid distribution, as discussed in the Potential Withhold section of this report. The results of our tests also indicated the Penn 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 \$67,519 and an investment balance with a fair value of \$10,104.

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

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Inadequate Financial Record-Keeping System

Finding No. 4 – Duplicate Payment of an Expenditure

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.

April 3, 2013

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

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 Penn Township Butler County Firemen's Relief Association, herein referred to as 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 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 Penn Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Penn Township	Butler	\$35,234	\$39,658	\$59,442

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

PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Unauthorized Expenditures

By receiving reimbursement, on April 21, 2009, in the amount of \$899, from the Penn Township Volunteer Fire Department, for the unauthorized expenditures made during the prior audit period. In addition, we did not detect any additional unauthorized expenditures during the current audit period.

- Inappropriate Ownership of Assets

By ceasing its practice of using the affiliated fire organization's federal tax identification number and obtaining its own identification number, and furnishing that number to the financial institution in which the relief association maintains funds.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Penn Township Volunteer Firefighters' Relief Association has not complied with three of the five 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
- Noncompliance With Prior Audit Recommendation – Inadequate Financial Record-Keeping System

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.

PENN TOWNSHIP 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 report, the relief association officials, again, failed to maintain a complete and accurate roster of equipment owned by the relief association. While a roster of relief association owned equipment was provided, it was not cumulative and did not include equipment purchased at a total cost of \$21,028 in 2009 and 2010, and equipment purchases of \$7,242 out of equipment purchased at a total cost of \$48,765 in 2011. 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 fixed assets.

Criteria: Sound 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 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: Even though notified of this condition during our prior audit, relief association officials, again, 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 all 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 fixed assets prevents adequate accountability for, and safeguarding of, relief association fixed assets.

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

Finding No. 1 – (Continued)

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.

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

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 made during the prior and current audit periods:

Prior Audit Period's Undocumented Expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
05/26/07	378	\$ 715
02/11/08	393	840
05/07/08	397	<u>120</u>
Total Prior Expenditures		<u>\$ 1,675</u>

Current Audit Period's Undocumented Expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
05/10/10	457	\$ 200
07/12/10	473	170
09/27/11	1030	<u>469</u>
Total Current Expenditures		<u>\$ 839</u>
Total Undocumented Expenditures		<u><u>\$ 2,514</u></u>

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.

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

Finding No. 2 – (Continued)

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, prudent business practice dictates that adequate supporting documentation be maintained to evidence the propriety of all financial transactions.

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

Effect: Lack of supporting documentation, such as invoices and detailed minutes of meetings, made it impossible to determine whether 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, as a result of our audit, and subsequent to the audit period, the relief association provided adequate supporting documentation evidencing \$639 of the total undocumented expenditures balance. In addition, the relief association received reimbursements from the affiliated fire department on October 19, 2012 and November 19, 2012, totaling \$1,675 and \$200, respectively.

Recommendation: We, again, recommend that the relief association officials maintain adequate 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 (Continued)

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Inadequate Financial Record-Keeping System

Condition: As cited in our prior audit report, the relief association's financial record-keeping system, again, did not provide effective control over cash receipts, disbursements, and monetary assets, and does not meet the minimum requirements of maintaining financial records established by this department. The following were deficiencies were noted:

- A journal was not maintained to record the receipts and disbursements of the relief association;
- Ledgers were not utilized to record the transactions of the relief association accounts;
- Documentation to support three expenditures, totaling \$839, was not available for examination at the time of the audit; and
- Documentation to support three deposits, totaling \$2,699, was not available for examination at the time of the audit.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states:

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it 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.

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

Cause: Even though notified of this condition during our prior audit, relief association officials, again, neglected 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.

Recommendation: We, again, recommend the relief association establish and maintain a financial record-keeping system that 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 (Continued)

Finding No. 4 – Duplicate Payment of an Expenditure

Condition: On September 20, 2010, the relief association expended \$230 for an equipment purchase. On February 15, 2011, the relief association erroneously made a duplicate payment for the same equipment. As such, the duplicate payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Adequate internal control procedures should be implemented to prevent the duplicate payment of invoices.

Cause: The volunteer firefighters' relief association failed to establish internal control procedures requiring that all invoices, or other billing documents, be canceled or otherwise effectively marked to prevent duplicate payments.

Effect: As a result of this duplicate payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend the relief association be reimbursed \$230 for the erroneous duplicate payment. The relief association should contact the vendor to recover the duplicate payment. In addition, the relief association should establish adequate internal control procedures requiring that all invoices, or other billing documents, be effectively marked after payment is made. 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
POTENTIAL WITHHOLD OF STATE AID

Conditions of repeat findings, such as those reported in Findings No. 1 through No. 3 may lead to a total withholding of state aid in the future unless these findings are corrected. However, such action will not be considered 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.

PENN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 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	\$ 18,596
Death benefits	2,000
Total Benefit Services	\$ 20,596
Fire Services:	
Equipment purchased	\$ 69,794
Equipment maintenance	4,292
Training expenses	5,306
Total Fire Services	\$ 79,392
Administrative Services:	
Miscellaneous administrative expenses	\$ 109
Total Administrative Services	\$ 109
Total Investments Purchased:	\$ 10,000
Other Expenditures:	
Principal payments on loan	\$ 23,486
Interest payments on loan	734
Undocumented Expenditures	839
Total Other Expenditures	\$ 25,059



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. Charles A. May, President

Mr. Russell L. Sarver, 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 and is available online at 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.