



TAYLORSTOWN VOLUNTEER FIREMAN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

TAYLORSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

WASHINGTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2003 TO DECEMBER 31, 2007



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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, 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 Taylorstown 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.

BACKGROUND (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Blaine Township	Washington	\$3,081	\$2,791	\$3,238
Buffalo Township	Washington	\$5,617	\$5,579	\$ - *

* The 2005 state aid allocation from Buffalo Township, in the amount of \$6,196, was not deposited into a relief association account until June 6, 2008. In addition, our department withheld the 2006 and 2007 state aid allocations from Blaine Township and Buffalo Township due to the relief association officials being uncooperative with our attempts to complete an audit engagement.

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Taylorstown Volunteer Firefighters' Relief Association is affiliated with the Taylorstown Volunteer Fire Department.

In August 2006, the Pennsylvania State Police began to investigate allegations of misappropriation of funds from the Taylorstown Volunteer Fire Department (fire department) by the former fire department treasurer and fire chief, who was also the treasurer of the Taylorstown Volunteer Firefighters' Relief association (relief association). In April 2008, the former treasurer pleaded guilty to theft by unlawful taking and receiving stolen property from the fire department in the amount of \$50,000. He paid \$30,000 in restitution to the fire department and was sentenced to pay an additional \$20,000 in restitution to the fire department and to serve four years probation.

The former treasurer was never charged with misappropriation of relief association funds. However, \$29,000 of the restitution paid to the fire department was transferred in 2008 by the fire department to the relief association. This transfer was to reimburse the relief association its 2005 state aid that the former treasurer deposited into the fire department's account (see Finding No. 2, page 8) and for undocumented relief association expenditures made during the former treasurer's tenure (see Finding No. 1, page 6).

Mr. Glenn Huston, President
TAYLORSTOWN VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Washington County

We have conducted a compliance audit of the Taylorstown 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, 2003 to December 31, 2007.

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 Taylorstown 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 applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objectives. We also tested transactions, confirmed the Taylorstown Volunteer Firefighters' Relief Association's cash balance as of December 31, 2007, with the custodian of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our audit for the period January 1, 2003 to December 31, 2007, found, in all significant respects, the Taylorstown Volunteer Firefighters' Relief Association did not receive and expend funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the following findings discussed later in this report. The results of our tests indicated the Taylorstown Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$40 and no investments.

Finding No. 1 – Inadequate Documentation of Expenditures

Finding No. 2 – Failure to Timely Deposit State Aid

Finding No. 3 – Inadequate Record-Keeping and Internal Controls

Finding No. 4 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

Finding No. 5 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

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

September 15, 2008

JACK WAGNER
Auditor General

TAYLORSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Unauthorized Expenditures

By receiving reimbursement of \$6,333 from the affiliated fire department for insurance premiums which were considered unauthorized expenditures.

- Undocumented Expenditures

By receiving reimbursement of \$675 from the affiliated fire department for the undocumented expenditures that were made in the prior audit period. However, the relief association made additional expenditures during the current audit period that were not adequately documented. These are discussed in further detail in Finding No. 1 of the report.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Taylorstown Volunteer Firefighters' Relief Association has not complied with several prior audit findings. These issues are further discussed in the following findings noted 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

We are concerned with the volunteer firefighters' relief association's failure to correct previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

TAYLORSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Documentation of Expenditures

Condition: During the audit period, the relief association expended funds totaling \$22,370 for which the documentation supporting the propriety of the disbursements was unavailable, inadequate, or unverifiable. The expenditures are as follows:

Date	Check No.	Description	Amount
04/01/03	138	Cash	\$ 825
06/25/03	Bank debit	Miscellaneous debit	18
06/29/03	140	Cash	655
10/20/03	143	Payment to individual	888
10/27/03	144	Payment to individual	400
02/23/04	149	Credit card company	629
05/06/04	151	Payment to individual	1,000
05/14/04	152	Payment to affiliated fire department	907
06/02/04	153	Payment to affiliated fire department	6,000
06/25/04	155	Payment to individual	625
06/28/04	156	Payment to affiliated fire department	3,000
06/29/04	157	Cash	350
10/13/04	160	Home improvement store	78
10/21/04	161	Electrical business	372
11/05/04	Bank debit	Automobile payment	725
11/05/04	Bank debit	Credit fee	3
11/13/04	163	Payment to individual	600
11/28/04	166	Payment to individual	1,100
03/04/05	177	Cash	436
10/19/05	168	Home improvement store	74
10/20/05	171	Cash	1,200
11/05/05	172	Payment to individual	485
11/29/05	179	Payment to affiliated fire department	2,000
Total			<u>\$ 22,370</u>

TAYLORSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

Cause: There was a turnover in the association officers' positions and the former relief association officials failed to establish adequate internal control procedures to ensure sufficient supporting documentation was maintained for all expenditures.

Effect: Lack of adequate supporting documentation, such as complete invoices and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Act 84 at 53 P.S. § 8506(e). In addition, disbursements made without requiring sufficient evidence of the purchase could result in misappropriation of funds.

However, subsequent to the audit period, on June 6, 2008, the relief association received reimbursement from the affiliated fire department for the above expenditures.

Recommendation: We 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 and indicated they will take action to comply with the recommendation.

TAYLORSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Timely Deposit State Aid

Condition: The relief association did not deposit the 2005 state aid allocation distributed by Buffalo Township, in the amount of \$6,196, into a relief association account. In addition, the 2004 state aid allocation received from Blaine Township, in the amount of \$2,791, was not deposited until October 18, 2005.

Criteria: The foreign fire insurance tax allocations were distributed to the municipal treasurers, who are required to forward the state aid to the volunteer firefighters' relief association treasurer within 60 days, 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 allocations, the relief association should ensure the funds are timely deposited into a relief association account.

Cause: The 2005 state aid allocation from Buffalo Township was erroneously deposited into the fire department's account rather than the relief association's account, and this error was not discovered until our audit engagement was conducted. In addition, the 2004 state aid allocation from Blaine Township was not timely deposited due to the municipality not forwarding the funds to the relief association until October of 2005 due to a turnover in the municipal secretary's position.

Effect: As a result of the state aid not being timely 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, subsequent to the audit period, on June 6, 2008, the relief association received reimbursement from the affiliated fire department for the 2005 state aid allocation.

Recommendation: We recommend the relief association establish accounting and internal control procedures to ensure that all future state aid is timely received and deposited into a relief association account. 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.

TAYLORSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Record-Keeping and Internal Controls

Condition: The relief association failed to establish adequate internal controls and to maintain pertinent financial records. The following internal control weaknesses and record-keeping deficiencies existed during the audit period:

- Association records were not adequately safeguarded.
- Detailed minutes of meetings were not maintained.
- A roster of relief association owned equipment was not maintained nor was an inventory of equipment performed.
- Bank statements and canceled checks were not maintained; copies had to be obtained from the bank.
- Original invoices to support various relief association expenditures were not available for review.
- A financial journal was not maintained for 2005, and the journals provided for 2003 and 2004 were inadequate. Also, there was no activity in 2006 and 2007; therefore, no journals were maintained for those years.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Financial statements were not prepared.
- Documentation to support various receipts was not available for examination.

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.

Furthermore, prudent business practice dictates that:

- Association records be adequately safeguarded.
- Detailed meeting minutes be maintained to accurately document relief association business.
- A roster of all relief association owned equipment be maintained, and an annual inventory be performed.
- Original bank statements, canceled checks, and investment documents be maintained.
- Original invoices to support all relief association expenditures be maintained and made available for review.
- Complete journals be maintained to record all receipts and disbursements of the relief association.
- Ledgers be maintained to record all transactions of the relief association accounts.
- Financial statements be prepared on an annual basis.
- Supporting documentation of all relief association business be maintained.

TAYLORSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: There was a turnover in the association officers' positions and the former relief association officials neglected to maintain the required financial records and an effective internal control system.

Effect: The failure to establish and maintain adequate internal controls and financial records prevented the relief association from adequately safeguarding its assets and placed the relief association's assets at greater risk for misappropriation. Without adequate recordkeeping, it is not possible to determine whether relief association assets were accounted for; disbursements were authorized and accurate; and business was presented before the membership for discussion and approval.

Recommendation: We recommend the relief association officials adopt internal control procedures which shall require the following:

- Relief association records be adequately safeguarded.
- Detailed minutes of meeting be maintained.
- A roster of relief association owned equipment be maintained and an annual inventory of the equipment be performed and documented.
- All future bank statements and canceled checks be maintained.
- Documentation of all receipts and expenditures be maintained.
- Journals, ledgers, and financial statements be prepared and maintained.

In addition, we also 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 FIREFIGHTER'S RELIEF ASSOCIATION.

Management's Response: Relief association management agreed with the finding and indicated they will take action to comply with the recommendation.

TAYLORSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

Condition: As cited in the prior audit report, the relief association did not maintain adequate minutes of the association meetings held in 2003 and 2004 as required by Act 84. In addition, the relief association did not maintain any minutes of meetings for years 2005, 2006, and 2007, and subsequent to the audit period.

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.

Cause: While notified of this condition in the prior audit report, the relief association officials neglected to maintain adequate minutes of all association meetings, as required by Act 84.

Effect: Without adequate minutes of all association meetings, it is not possible to determine whether relief association business was presented before the membership for discussion and approval.

Recommendation: We again recommend the relief association maintain a permanent record of all relief association meetings, as required by Act 84. The minutes should include an adequate record 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.

Management's Response: Relief association management agreed with the finding and indicated they will take action to comply with the recommendation.

TAYLORSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the prior audit report, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While a roster was provided, it was incomplete as it did not include all equipment items purchased during the audit period. In addition, there was no indication that an annual 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: While notified of this condition in the prior audit report, relief association officials neglected 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 perform an annual equipment inventory prevents adequate accountability and safeguarding of relief association assets.

Recommendation: We again recommend the relief association officials maintain a cumulative roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs 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.

TAYLORSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Management's Response: Relief association management agreed with the finding and indicated they will take action to comply with the recommendation.

TAYLORSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2003 TO DECEMBER 31, 2007

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	\$ 14,277
Total Benefit Services	\$ 14,277
Fire Services:	
Equipment purchased	\$ 11,134
Equipment maintenance	233
Total Fire Services	\$ 11,367
Administrative Services:	
Miscellaneous administrative expenses	\$ 271
Total Administrative Services	\$ 271
Other Expenditures:	
Undocumented expenditures	\$ 22,370
Total Other Expenditures	\$ 22,370

TAYLORSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Taylorstown Volunteer Firefighters' Relief Association Officers:

Mr. Glenn Huston, President

Mr. Richard Joyce, Vice-President

Mr. Timothy Hewitt, Secretary

Ms. Teri Joyce, Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Lisa Stasiowski, Secretary
Blaine Township

Mr. Raymond Calvert, Secretary
Buffalo 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.