

TRI-TOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

POTTER COUNTY

COMPLIANCE AUDIT REPORT

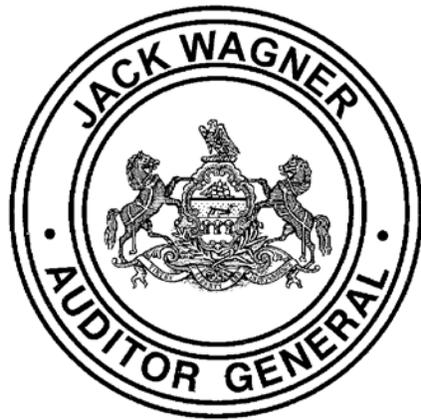
FOR THE PERIOD

JANUARY 1, 2008 TO DECEMBER 31, 2010



CONTENTS

Background.....	1
Letter From the Auditor General	3
Status of Prior Finding.....	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures.....	6
Finding No. 2 – Failure to Monitor Receipt of State Aid	8
Finding No. 3 – Duplicate Payment.....	9
Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster.....	10
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 Tri-Town Volunteer Firemen's Relief Association, herein referred to as Tri-Town Volunteer Firefighters' Relief Association, is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations, which is or are recognized as providing the service to the municipality.

BACKGROUND (Continued)

The Tri-Town 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>
Allegany Township	Potter	\$1,170	\$1,016	\$1,144
Bingham Township	Potter	\$2,194 *	\$1,952	\$2,197
Hector Township	Potter	\$ 841	\$ 769	\$ 866
Ulysses Borough	Potter	\$3,370	\$2,994	\$3,370
Ulysses Township	Potter	\$2,632	\$2,306	\$2,595

* The relief association's 2008 state aid allocation from Bingham Township was erroneously deposited into the affiliated fire company's account by the relief association. Refer to Finding No. 2 in the Findings and Recommendations section of this report.

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

Tri-Town Volunteer Fire Company

Mr. Clifford J. Wood, President
TRI-TOWN VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Potter County

We have conducted a compliance audit of the Tri-Town 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 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 Tri-Town 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 Tri-Town Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Tri-Town 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 Tri-Town Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this report. In addition, the results of our audit found the Tri-Town 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 Tri-Town Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$19,015 and an investment balance with a fair value of \$17,634.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Finding No. 2 – Failure to Monitor Receipt of State Aid

Finding No. 3 – Duplicate Payment

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

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

May 6, 2011

JACK WAGNER
Auditor General

TRI-TOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Tri-Town Volunteer Firefighters' Relief Association has not complied with the following prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

While the relief association received reimbursement from Tri-Town Volunteer Fire Company, in the amount of \$170, for the unauthorized expenditure made during the prior audit period, the relief association made additional unauthorized expenditures during the current audit period. Refer to Finding No. 1 in the Findings and Recommendations section of this report.

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

TRI-TOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Condition: As cited in our prior audit report, the relief association expended funds for the following item, which is not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
10/14/05	081729	Fire company bond insurance	\$ 170
Total			<u>\$ 170</u>

During the current audit period, the relief association received reimbursement from the Tri-Town Volunteer Fire Company, on April 17, 2008, in the amount of \$170, for the prior audit period's unauthorized expenditure. However, the relief association made additional unauthorized expenditures, as follows:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
10/13/08	1013	Fire company bond insurance	\$ 170
06/05/09	1038	Fire company bond insurance	112
09/14/10	1083	Grant writing training course	<u>297</u>
Total			<u>\$ 579</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1, 10, and 12) 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 the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.
- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.

TRI-TOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 (Continued)

- (12) To secure insurance against the legal liability of volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or performing their duties as special fire police.

Because 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) has been established whereby the DCED provides interpretation of Act 118. Costs associated with the purchase of fire company bond insurance, and with providing Grant writing training courses, have been deemed by DCED to not qualify as expenditures that directly benefit relief association officers; consequently, these disbursements are not authorized under Act 118.

Cause: Even though relief association officials were made aware during our prior audit that the payment of fire company bond insurance premiums were not authorized by Act 118, the relief association, again, made such payments in 2008 and 2009. Relief association officials were unaware that costs associated with providing Grant writing training courses were not authorized by Act 118.

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 118.

However, subsequent to the current audit period, on March 28, 2011, the relief association received reimbursement from the affiliated fire company, in the amount of \$170 for a portion of the unauthorized expenditures made during the current audit period. On May 6, 2011, the relief association received reimbursement from the affiliated fire company, in the amount of \$409 for the remaining balance of unauthorized expenditures made during the current audit period.

Recommendation: We, again, recommend the relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) 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 has take action to comply with the recommendation.

TRI-TOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Monitor Receipt of State Aid

Condition: The relief association failed to monitor the receipt of the 2008 state aid distribution from Bingham Township, totaling \$2,194.

Criteria: Per department policy, it is the relief association's responsibility to monitor the receipt of state aid. If the relief association has not received its state aid checks from dispensing municipalities by December 1 of each year, the relief association officers should contact the respective municipality to determine the status of the distribution of funds due to the relief association.

Cause: The relief association failed to implement internal control procedures to monitor the receipt of all state aid. The foreign fire insurance tax (state aid) allocation was distributed to the municipal treasurer, who erroneously forwarded this state aid to the affiliated fire company on October 1, 2008. The affiliated fire company erroneously deposited the state aid into a fire company account. As a result of the auditor's inquiry made during our current audit, the relief association contacted Bingham Township in March 2011 about the status of the 2008 state aid.

Effect: The relief association's failure to implement internal control procedures to monitor the receipt of state aid resulted in a significant delay in the receipt, deposit, and use of the 2008 state aid 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 audit, and subsequent to the audit period, on March 28, 2011, the relief association received reimbursement from Tri-Town Volunteer Fire Company.

Recommendation: The relief association should implement internal control procedures to ensure that all state aid is timely received and deposited into a relief association account. We further recommend that if the relief association has not received its state aid check from a municipality by December 1 of each year, the relief association contact the municipality to determine the status of the municipality's distribution of the outstanding state aid funds. 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.

TRI-TOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Duplicate Payment

Condition: On March 7, 2009, the relief association expended \$2,461 for equipment purchases and maintenance. On March 31, 2009, the relief association erroneously made a duplicate payment for the same equipment purchases and maintenance. As such, the second duplicate payment is considered an unauthorized disbursement because no goods or services were received for the payment.

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

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

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

However, as a result of our audit, and subsequent to the audit period, on June 10, 2011, the relief association received reimbursement from the vendor for this duplicate payment.

Recommendation: The relief association should establish accounting and internal control procedures to monitor future relief association expenditures and prevent duplicate payments. 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 has taken action to comply with the recommendation.

TRI-TOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: The relief association officials failed to maintain a complete and accurate roster of equipment owned by the relief association. While the relief association had previously maintained an equipment roster, it did not provide an updated roster that included the equipment items purchased during the current audit period. 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. The relief association purchased \$33,972 of equipment during the current audit period.

Criteria: Sound business practice dictate the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all equipment 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:

- 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: Relief association officials 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 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.

Recommendation: We 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.

TRI-TOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

TRI-TOWN 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	\$ 1,603
Relief benefits	135
Total Benefit Services	\$ 1,738
Fire Services:	
Equipment purchased	\$ 33,972
Equipment maintenance	4,477
Training expenses	1,753
Fire prevention materials	2,351
Total Fire Services	\$ 42,553
Administrative Services:	
Officer compensation	\$ 200
Other administrative expenses	231
Total Administrative Services	\$ 431
Total Investments Purchased:	\$ 23,177

TRI-TOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Tri-Town Volunteer Firefighters' Relief Association Governing Body:

Mr. Clifford J. Wood, President

Ms. Robin Freeman, Vice President

Ms. Krystle Newhard, Secretary

Ms. Fay Wood, Treasurer

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

Ms. Helen J. Turner, Secretary
Allegany Township

Ms. Cheryl Young, Secretary
Bingham Township

Mr. Basil J. McCutcheon, Secretary
Hector Township

Ms. Betty Jo Hilfiger, Secretary
Ulysses Borough

Ms. Nancy Kosa, Secretary
Ulysses 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.