



CALLERY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

BUTLER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005 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 Callery 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 Callery Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Adams Township	Butler	\$25,339	\$27,054	\$28,175
Callery Borough	Butler	\$ 3,300*	\$ 3,334*	\$ 3,297*

* The 2005, 2006, and 2007 state aid from Callery Borough was not deposited into a relief association account until December 15, 2008.

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

Callery Volunteer Fire Company

Mr. Dennis Huffman, President
CALLERY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Butler County

We have conducted a compliance audit of the Callery 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, 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 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 Callery 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 Callery Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2007, with the custodians 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, 2005 to December 31, 2007, found, in all significant respects, the Callery Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report. The results of our tests indicated the Callery Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$67,070 and an investment balance with a fair value of \$8,139.

Finding No. 1 – Failure to Timely Receive and Deposit State Aid

Finding No. 2 – Undocumented Expenditures

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

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

November 25, 2008

JACK WAGNER
Auditor General

CALLERY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Insufficient Officer's Bond Coverage

By increasing the officer's bond coverage to an amount greater than the balance of cash assets.

CALLERY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure to Timely Receive and Deposit State Aid

Condition: The relief association did not timely receive and deposit the 2005, 2006, and 2007 state aid, totaling \$9,930, from Callery Borough. After bringing this matter to the relief association's attention during the current audit, the relief association realized the funds had been received by the affiliated fire company and erroneously deposited into a fire company account.

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

Cause: The relief association failed to establish internal control procedures to ensure that all state aid is timely received and deposited into a relief association account. The 706-B receipt forms submitted by Callery Borough for the 2005, 2006, and 2007 state aid indicated that the checks issued by Callery Borough were made payable to the affiliated fire company rather than the relief association. We were informed that, because the state aid checks were made payable to the affiliated fire company, they were erroneously deposited into a fire company account.

Effect: As a result of the state aid not being timely received and 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 exit conference, on December 15, 2008, the relief association received reimbursement from the affiliated fire company, in the amount of \$9,930, for the 2005, 2006, and 2007 Callery Borough state aid.

Recommendation: We recommend the relief association establish accounting and internal control procedures to ensure that all state aid is timely received and deposited into a relief association account. A copy of this report is also being furnished to the Callery Borough municipal officials so they are aware of the conditions that were detected at the time of the audit. 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.

CALLERY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding No. 2 – Undocumented Expenditures

Condition: During the current audit, the relief association was unable to provide adequate supporting documentation for the following expenditures:

Date	Check No.	Description	Amount
04/27/05	1013	Equipment vendor	\$ 391
05/12/05	1014	Disbursement to member	75
05/12/05	1016	Equipment vendor	77
09/18/05	1023	Disbursement to member	92
09/19/05	1024	Disbursement to member	206
09/19/05	1025	Disbursement to member	75
09/26/05	1026	Food provider	61
10/25/05	1028	Disbursement to member	120
11/04/05	1029	Equipment vendor	75
11/10/05	1030	Disbursement to member	100
01/21/06	1034	Food provider	70
03/06/06	1035	Disbursement to member	60
04/22/06	1037	Hotel	959
04/22/06	1038	National conference	1,450
05/30/06	1039	County fire association	240
05/30/06	1044	Unaffiliated fire company	15
07/24/06	1045	Disbursement to member	48
07/24/06	1046	County fire association	120
07/24/06	1047	County fire association	120
09/06/06	1050	Training provider	84
09/26/06	1051	Training provider	100
10/11/06	1058	Affiliated fire company	120
11/11/06	1060	Food provider	45
12/18/06	1062	Training provider	300
02/19/07	1068	Training provider	140
02/19/07	1074	Training provider	110
Total undocumented expenditures			<u>\$ 5,253</u>

CALLERY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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.

Without adequate supporting documentation, such as invoices and training certificates, where applicable, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require 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, where applicable, made it impossible to determine if the expenditures were made in accordance with Act 84 at 53 P.S. § 8506(e).

However, subsequent to the audit period, on December 15, 2008, after bringing this matter to the relief association's attention, the relief association received reimbursement, in the amount of \$5,253, from the affiliated fire company for the undocumented 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 as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

CALLERY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – 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 an equipment roster was provided during the current audit, it did not list the majority of equipment purchased during the audit period. Specifically, the relief association failed to record a rescue vehicle and tools, totaling \$43,629, on its equipment roster. In addition, there was no indication that an annual inventory was conducted 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 in all equipment owned.

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 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.

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.

CALLERY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 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	\$ 10,519
Total Benefit Services	\$ 10,519
Fire Services:	
Equipment purchased	\$ 70,903
Equipment maintenance	11,791
Training expenses	1,134
Total Fire Services	\$ 83,828
Other Expenditures:	
Undocumented expenditures	\$ 5,253
Total Other Expenditures	\$ 5,253

CALLERY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Callery Volunteer Firefighters' Relief Association Officers:

Mr. Dennis Huffman, President

Ms. Lynn Bouchier, Secretary

Ms. Amy Huffman, Treasurer

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

Ms. Janet L. Lubbert, Secretary
Adams Township

Ms. Alice A. Wahl, Secretary
Callery Borough

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.