



**THE LORAIN BOROUGH FIRE COMPANY RELIEF ASSOCIATION**

**HEREIN REFERRED TO AS:**

**LORAIN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**CAMBRIA COUNTY**

**COMPLIANCE AUDIT REPORT**

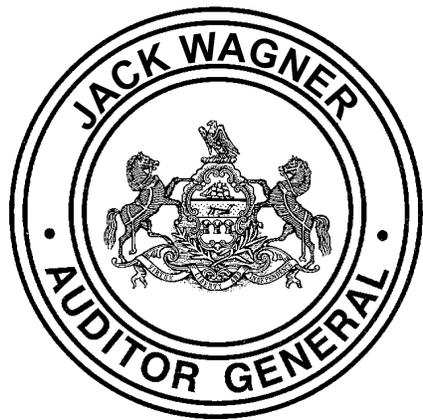
**FOR THE PERIOD**

**JANUARY 1, 2004 TO DECEMBER 31, 2006**



## CONTENTS

Background.....	1
Letter From the Auditor General .....	3
Status of Prior Findings .....	5
Findings and Recommendations:	
Finding No. 1 – Undocumented Expenditure .....	6
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure to Obtain a Federal Tax Identification Number .....	7
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes of Meetings .....	8
Accompanying Expenditure Information .....	9
Report Distribution List .....	11



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 Lorain Borough Volunteer Firefighters' Relief Association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

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

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

<u>Municipality</u>	<u>County</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Lorain Borough	Cambria	\$2,929	\$3,230	\$3,263

BACKGROUND (Continued)

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

Lorain Borough Volunteer Fire Company

Mr. Rick Edwards, President  
LORAIN BOROUGH VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Cambria County

We have conducted a compliance audit of the Lorain Borough 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, 2004 to December 31, 2006. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

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 Lorain Borough 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 Lorain Borough Volunteer Firefighters' Relief Association's cash balance as of December 31, 2006, 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, 2004 to December 31, 2006, found, in all significant respects, the Lorain Borough 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 Lorain Borough Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2006, had a cash balance of \$1,304 and no investments.

Finding No. 1 – Undocumented Expenditure

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Obtain a Federal Tax Identification Number

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Inadequate Minutes of Meetings

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

November 8, 2007

JACK WAGNER  
Auditor General

LORAIN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

- Failure to Maintain a Complete and Accurate Membership Roster

The Lorain Borough Volunteer Firefighters' Relief Association has complied with the prior audit finding and recommendation by maintaining a comprehensive listing of the relief association membership.

- Undocumented Expenditure

As cited in the prior audit report, the Lorain Borough Volunteer Firefighters' Relief Association did not provide adequate supporting documentation for an expenditure made in the prior financial period. While the relief association did not timely comply with the finding in the current audit period, they have since obtained reimbursement from the fire company, subsequent to the period under review. This is discussed in detail in Finding No. 1 contained in the Findings and Recommendations section of this report.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Lorain Borough Volunteer Firefighters' Relief Association has not complied with the 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 – Failure to Obtain a Federal Tax Identification Number
- Noncompliance With Prior Audit Recommendation – Inadequate Minutes of Meetings

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.

LORAIN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for a \$283 expenditure made in the prior financial period

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 an invoice, 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: While notified of this condition in the prior audit report, relief association officials failed to take the appropriate steps in order to timely comply with the recommendation.

Effect: Lack of supporting documentation, such as an invoice and detailed minutes of relief association meetings, made it impossible to determine the expenditure was made in accordance with Act 84 at 53 P.S. § 8506(e).

However, subsequent to the period under review, on November 15, 2007, the relief association received reimbursement from the fire company in the amount of \$283 for the above undocumented expenditure.

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.

LORAIN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Obtain a Federal Tax Identification Number

Condition: As cited in the prior two audit reports, the volunteer firefighters' relief association failed to comply with the Tax Equity and Fiscal Responsibility Act by not obtaining a federal tax identification number. The relief association is inappropriately using the fire service organization's federal tax identification number, although the fire service organization and the relief association are separate legal entities.

Criteria: All businesses, both profit and nonprofit, are required to obtain a federal tax identification number and provide this number to any financial institution where funds are earning interest. If their tax identification number is not provided, the financial institution is required to withhold 31 percent of interest earned and transmit these funds to the Internal Revenue Service, representing federal income taxes.

Cause: While notified of this condition in the prior two audit reports, the relief association neglected to take the appropriate steps in order to procure its own federal tax identification number.

Effect: Failure to comply with the Tax Equity and Fiscal Responsibility Act could cause the relief association to be penalized by the Internal Revenue Service, resulting in the loss of funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We again recommend the relief association immediately apply for its own federal tax identification number through the Internal Revenue Service, and furnish this number to its financial institutions. The relief association should also consider applying to the Internal Revenue Service for tax exempt status as a nonprofit corporation under Internal Revenue Code 501(c). 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.

LORAIN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Inadequate Minutes of Meetings

Condition: As cited in the prior audit report, the relief association failed to maintain detailed minutes of meetings, as required by Act 84. Specifically, the relief association's minutes did not address all of the financial-related transactions, which occurred during the period under review.

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, relief association officials neglected to maintain detailed minutes of meetings as required by Act 84.

Effect: The failure to maintain detailed minutes of meetings prevented the verification as to whether all relief association business was presented before the membership for approval.

Recommendation: We again recommend the relief association maintain detailed minutes of meetings, including 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 as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

LORAIN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2006

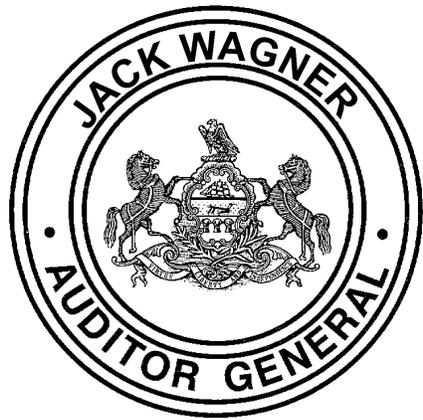
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 5,223
Total Benefit Services	\$ 5,223
Fire Services:	
Equipment purchased	\$ 3,351
Equipment maintenance	3,756
Training expenses	1,407
Total Fire Services	\$ 8,514
Administrative Services:	
Miscellaneous administrative expenses	\$ 2,387
Total Administrative Services	\$ 2,387



LORAIN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Lorain Borough Volunteer Firefighters' Relief Association Officers:

Mr. Rick Edwards, President

Ms. Sharon Montag, Secretary

Mr. Paul Rutledge, Treasurer

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

Ms. Nancy Bizjak, Secretary  
Lorain 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](http://www.auditorgen.state.pa.us).