

LOYALSOCK VOLUNTEER FIRE CO. NO. 1 RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

LOYALSOCK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

LYCOMING COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005 TO DECEMBER 31, 2007



CONTENTS

Background.....	1
Letter From the Auditor General	3
Findings and Recommendations:	
Finding No. 1 – Unauthorized Expenditures	5
Finding No. 2 – Undocumented Expenditures.....	7
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 Loyalsock 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 Loyalsock Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Loyalsock Township	Lycoming	\$75,945	\$76,887	\$77,707

BACKGROUND (Continued)

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

Loyalsock Volunteer Fire Company No. 1

Mr. Michael Minnier, President
LOYALSOCK VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lycoming County

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

The objective of the audit was 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Loyalsock 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 objective. We also tested transactions, confirmed the Loyalsock Volunteer Firefighters' Relief Association's 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 objective.

The results of our audit for the period January 1, 2005 to December 31, 2007, found, in all significant respects, the Loyalsock 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 Loyalsock Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$145,384 and no investments.

Finding No. 1 – Unauthorized Expenditures

Finding No. 2 – Undocumented Expenditures

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

March 14, 2008

JACK WAGNER
Auditor General

LOYALSOCK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items, which are not authorized by Act 84:

Date	Check No.	Description	Amount
05/15/06	837	Memorial plaque for nonmember	\$ 60
01/29/07	909	Badge case for deceased member	87
02/01/07	910	Supplies for memorial meal	325
02/08/07	913	Memorial meal items	308
02/14/07	919	Catering bill for memorial meal	1,610
02/21/07	925	Bagpipe player for funeral service	150
03/01/07	929	Mourning bands and bugles	76
Total			<u>\$ 2,616</u>

Criteria: Act 84 at 53 P.S. § 8506(e)(5) states:

The funds of any volunteer firefighters' relief association may be spent:

- (5) To pay the costs of procuring and forwarding tokens of sympathy and goodwill to a volunteer firefighter who may be ill or hospitalized as a result of participation in the fire service or who may die or who may be seriously ill for any reason.

Since 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) had been established whereby the DCED provided interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." Payments for funeral expenses have been deemed by DCED to not qualify as tokens of sympathy; consequently, these disbursements totaling \$2,616 are not authorized under Act 84.

Cause: Relief association officials were unaware that the aforementioned expenditures were not authorized by Act 84.

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 84.

However, subsequent to the period under review, on March 25, 2008, the relief association received reimbursement from the fire company for the unauthorized expenditures.

LOYALSOCK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) 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 indicated they will take action to comply with the recommendation.

LOYALSOCK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Expenditure Description</u>	<u>Amount</u>
10/23/05	779	Training reimbursement	\$ 65
09/25/06	873	Training provider	300
03/21/07	936	Training provider	500
03/27/07	939	Credit card company	<u>85</u>
Total			<u>\$ 950</u>

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 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, made it impossible to determine the expenditures were made in accordance with Act 84 at 53 P.S. § 8506(e).

However, subsequent to the period under review, on March 25, 2008, the relief association received reimbursement from the fire company for the undocumented expenditures.

LOYALSOCK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

LOYALSOCK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2007

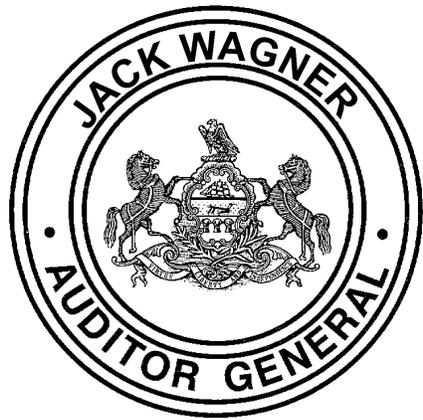
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 22,337
Death benefits	15,000
Relief benefits	5,200
Tokens of sympathy and goodwill	3,677
Total Benefit Services	\$ 46,214
Fire Services:	
Equipment purchased	\$ 136,788
Equipment maintenance	50,591
Training expenses	9,368
Total Fire Services	\$ 196,747
Administrative Services:	
Miscellaneous administrative expenses	\$ 1,142
Total Administrative Services	\$ 1,142
Other Expenditures:	
Principal payments on loan	\$ 3,160
Interest payments on loan	1,136
Undocumented expenditures	950
Total Other Expenditures	\$ 5,246



LOYALSOCK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Loyalsock Volunteer Firefighters' Relief Association Officers:

Mr. Michael Minnier, President

Ms. Sue Caschera, Secretary

Mr. Thomas Miller, Treasurer

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

Ms. Mary Ann Miller, Secretary
Loyalsock 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.