



VERNON CENTRAL HOSE COMPANY FIREMAN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

VERNON CENTRAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

CRAWFORD 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 Vernon Central 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 Vernon Central 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>
Union Township	Crawford	\$ 4,431	\$ 4,516	\$ 4,453
Vernon Township	Crawford	\$19,185	\$19,589	\$19,207

BACKGROUND (Continued)

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

Vernon Central Hose Company

Mr. Gary Dillaman, President
VERNON CENTRAL VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Crawford County

We have conducted a compliance audit of the Vernon Central 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 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 Vernon Central 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 Vernon Central 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 objectives.

The results of our audit for the period January 1, 2005 to December 31, 2007, found, in all significant respects, the Vernon Central 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 Vernon Central Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$40,307 and no investments.

Finding No. 1 – Failure to Timely Deposit State Aid

Finding No. 2 – Undocumented Expenditures

Finding No. 3 – Unauthorized Expenditures

Finding No. 4 – Inadequate Financial Record-Keeping System

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

July 14, 2008

JACK WAGNER
Auditor General

VERNON CENTRAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure to Obtain a Pennsylvania Sales Tax Exemption Number

By obtaining a Pennsylvania sales tax exemption number and furnishing this number to all vendors from which the relief association purchases equipment.

VERNON CENTRAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure to Timely Deposit State Aid

Condition: The relief association did not timely deposit the 2005 state aid distributed by Union Township, in the amount of \$4,431, into a relief association account.

Criteria: The foreign fire insurance tax allocation was distributed to the municipal treasurer, who forwarded this state aid to the volunteer firefighters' relief association treasurer within the 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 allocation, 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 received is deposited into a relief association account. The 2005 state aid was mistakenly deposited into the affiliated fire company's account.

Effect: As a result of the state aid not being 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 period under review, on July 25, 2008, the relief association received reimbursement from the affiliated fire department for the undeposited state aid.

Recommendation: The relief association should establish accounting and internal control procedures to ensure that all state aid is received in a timely manner 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 as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

VERNON CENTRAL 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>Description</u>	<u>Amount</u>
08/26/05	649	County Fire School	\$ 90
08/05/05	651	County Fire School	45
11/14/05	658	Regional EMS Council	899
01/04/06	661	Community College	225
01/12/06	662	Insurance agency	1,033
07/27/06	697	Equipment vendor	180
01/04/07	714	Community College	75
06/20/07	737	County Fire School	135
08/31/07	743	Medical Center	450
04/10/08	770	Fire Department	534
04/10/08	771	Fire Department	150
06/26/08	782	Fire Department	<u>276</u>
Total			<u>\$ 4,092</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/or 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.

VERNON CENTRAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Lack of supporting documentation, such as invoices and/or training certificates, where applicable, 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 July 25, 2008, the relief association received reimbursement from the affiliated fire company, in the amount of \$4,092, for the above noted 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.

VERNON CENTRAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Unauthorized Expenditures

Condition: During the current financial period, the relief association disbursed a total of \$28,559 for premiums due on various insurance policies. While premiums for certain portions of these policies were considered authorized types of insurance coverage, it was determined that of the \$28,559 in premiums paid, \$23,871 were considered authorized by Act 84. The balance of \$4,688 were for premiums on certain portions of the fire company's property, crime, and commercial auto package insurance policies, which were not for the purpose of insuring the relief association or its members.

Criteria: Act 84 at 53 P.S. § 8506(e)(2, 8 and 12) states:

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

- (2) To purchase contracts of insurance which shall at the least afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and which may also provide in the order named, (i) for payments to the widow or other dependents of a member in the event of his death, (ii) for protection of active firefighters against disease, (iii) for the replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches, and the like, where such devices have been lost or damaged while the owner was engaged in the fire service or where the need for such devices arises because of functional impairment attributable to participation in the fire service, (iv) for the repair or replacement if necessary of articles of clothing or pocket pagers damaged in the course of participation in the fire service, and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

- (8) To contribute or to purchase contracts of insurance which will contribute towards the costs of rehabilitating and retraining volunteer firefighters who by reason of their participation in the fire service have suffered a major impairment of their ability to continue their vocation.

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

VERNON CENTRAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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." The above insurance premiums have been deemed by DCED to not qualify as insurance benefits which directly cover the volunteer firefighter; consequently, these disbursements for \$4,688 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 July 25, 2008, the relief association received reimbursement from the affiliated fire company for the above noted unauthorized expenditures.

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.

VERNON CENTRAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Financial Record-Keeping System

Condition: The relief association's financial record-keeping system did not provide effective control over cash receipts, disbursements, and monetary assets, and does not meet the minimum requirements of maintaining financial records established by this department. The following are the noted deficiencies:

- A journal was not maintained to record the receipts and disbursements of the relief association for the years 2006 and 2007.
- Ledgers were not utilized to record the transactions of the relief association accounts for the years 2006 and 2007.
- Documentation to support various expenditures was not available for examination at the time of the audit for the years 2005, 2006, and 2007.
- Financial statements were not prepared on an annual basis for the years 2005, 2006, and 2007.

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.

In addition, an adequate system of accounting and record keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials were unaware of their various record-keeping responsibilities.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We recommend the relief association establish and maintain a financial record-keeping system, which meets the minimum record-keeping requirements of this department. 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.

VERNON CENTRAL 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	\$ 28,559
Total Benefit Services	\$ 28,559
Fire Services:	
Equipment purchased	\$ 38,084
Equipment maintenance	5,446
Training expenses	3,240
Total Fire Services	\$ 46,770
Administrative Services:	
Miscellaneous administrative expenses	\$ 71
Total Administrative Services	\$ 71
Other Expenditures:	
Undocumented expenditures	\$ 3,132
Total Other Expenditures	\$ 3,132

VERNON CENTRAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Vernon Central Volunteer Firefighters' Relief Association Officers:

Mr. Gary Dillaman, President

Ms. Nicole Grinnell, Secretary

Ms. Donna Walker, Treasurer

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

Ms. Roxie Fucci, Secretary
Union Township

Ms. Lori E. Swavey, Secretary
Vernon 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.