

WILKES-BARRE TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

**WILKES-BARRE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF
ASSOCIATION**

LUZERNE 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 Loans	6
Finding No. 2 – Erroneous Withdrawal of Funds.....	8
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure to Obtain a Federal Tax Identification Number	9
Potential Withhold of State Aid.....	10
Accompanying Expenditure Information	11
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, 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 Wilkes-Barre Township 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 Wilkes-Barre Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Wilkes-Barre Township	Luzerne	\$25,841	\$27,181	\$27,388

BACKGROUND (Continued)

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

Wilkes-Barre Township Volunteer Fire Department

Mr. James Youkowski, President
WILKES-BARRE TOWNSHIP VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Luzerne County

We have conducted a compliance audit of the Wilkes-Barre Township 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 Wilkes-Barre Township 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 Wilkes-Barre Township Volunteer Firefighters' Relief Association's investment balance and the 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 found that for the period January 1, 2004 to December 31, 2006, the Wilkes-Barre Township Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2006, had a cash balance of \$216 and an investment balance with a fair value of \$38,200. Additionally, the results of our tests indicated that, in all significant respects, the Wilkes-Barre Township Volunteer Firefighters' Relief Association received and expended state aid and accumulated relief association funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report:

Finding No.1 – Undocumented Loans

Finding No. 2 – Erroneous Withdrawal of Funds

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

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

May 11, 2007

JACK WAGNER
Auditor General

WILKES-BARRE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Wilkes-Barre Township Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Unsecured Loans

By securing the fire company loans made in the prior audit period with a lien on a 1985 Duplex vehicle.

- Failure to Maintain Minutes of Meetings

By maintaining minutes of all relief association meetings.

- Inadequate Signatory Authority for the Disbursement of Funds

By requiring more than one signature on all negotiable instruments.

- Inappropriate Presigning of Blank Checks

By prohibiting the presigning of blank checks.

- Untimely Payment of Lease-Financing and Bank Loan Payments

By making timely payments on the lease-financing and bank loan obligations.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Wilkes-Barre Township Volunteer Firefighters' Relief Association has not complied with a prior audit finding. These issues are further discussed in the following finding noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

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

WILKES-BARRE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Loans

Condition: On the following dates, the relief association made undocumented loans to the Wilkes-Barre Township Volunteer Fire Department, totaling \$17,000, without formal written loan agreements.

<u>Date</u>	<u>Amount</u>
01/09/04	\$ 1,000
12/08/05	5,000
11/06/06	<u>11,000</u>
Total	<u>\$ 17,000</u>

Criteria: Act 84 at 53 P.S. § 8506(c)(3) states, in part:

All, or any part of the funds of any volunteer firefighters' relief association may be invested:

In any obligation of an incorporated fire company which obligation is secured by assets of the [fire] company having capital value equal to at least one hundred fifty percent of the amount of the obligation at the time it is made, and is subject to provisions which will amortize such loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least equal to one hundred fifty percent of the balance remaining due.

In addition, good business practice requires such terms of the obligation be placed into a written loan agreement.

Cause: The current relief association officials were unaware that the loans to the fire company must be documented to ensure compliance with Act 84 provisions.

Effect: Failure to adequately document the loans through formal written agreements places the investments at greater risk.

Recommendation: We recommend the relief association and fire department prepare formal written loan agreements, signed by both parties, specifying the payment schedule and the interest rate. The loan agreements must also specifically identify the collateral to protect the investments

WILKES-BARRE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

as required by Act 84 at 53 P.S. § 8506(c)(3). If such action is not taken, we recommend that the loans be immediately liquidated. 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.

WILKES-BARRE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Erroneous Withdrawal of Funds

Condition: A withdrawal of \$1,633 was erroneously made from the relief association's account for a fire department loan payment. The loan payment was improperly withdrawn from the relief association's account rather than the fire department's account.

Criteria: Adequate accounting and internal control procedures should be implemented to ensure improper disbursements are not made from a relief association account.

Cause: The bank erroneously withdrew the fire department's loan payment from the relief association's bank account rather than the fire department's bank account.

Effect: As a result of this improper withdrawal, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 84.

Recommendation: We recommend the relief association be reimbursed \$1,633 for the unauthorized withdrawal and that relief association officials establish accounting and internal control procedures to ensure that improper disbursements are not made from 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.

WILKES-BARRE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

Condition: As cited in the prior audit report, 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 audit report, 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.

**WILKES-BARRE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID**

Conditions such as those reported in Finding Nos. 1 and 2 may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action will not be considered if sufficient documentation is provided within 30 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, 406 Finance Building, Harrisburg, PA

WILKES-BARRE TOWNSHIP 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:

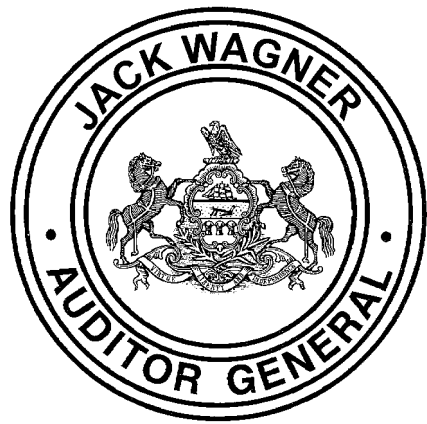
A volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. Such an association may also serve other 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	\$ 4,726
Total Benefit Services	\$ 4,726
Fire Services:	
Equipment purchased	\$ 24,079
Equipment maintenance	2,876
Total Fire Services	\$ 26,955
Administrative Services:	
Miscellaneous administrative expenses	\$ 111
Total Administrative Services	\$ 111
Total Investments Purchased	\$ 17,000
Other Expenditures:	
Erroneous withdrawal of funds*	\$ 1,633
Principal payments on bank loan	10,988
Interest payments on bank loan	1,038
Principal payments on lease-financing	33,433
Interest payments on lease-financing	11,356
Total Other Expenditures	\$ 58,448

* See Finding No. 2



WILKES-BARRE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Wilkes-Barre Township Volunteer Firefighters' Relief Association Officers:

Mr. James Youkowski, President

Mr. John Yuknavich, Secretary

Mr. Robert Charles, Treasurer

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

Ms. Renee Faust, Secretary
Wilkes-Barre 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.