

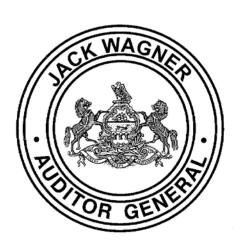
CORSICA VOLUNTEER FIREMENS RELIEF ASSOCIATION

JEFFERSON COUNTY

COMPLIANCE AUDIT REPORT

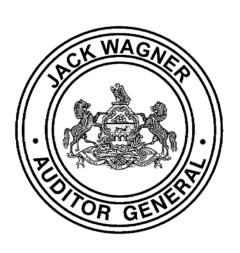
FOR THE PERIOD

JANUARY 1, 2008 TO DECEMBER 31, 2010



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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, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 et seq., 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 Corsica Volunteer Firemens Relief Association, herein referred to as Corsica 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 118 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 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, 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 Corsica Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

Municipality	County	2008	2009	2010
Clarion Township	Clarion	\$6,350	\$5,652	\$6,361
Limestone Township	Clarion	\$1,069	\$ 960	\$1,081
Corsica Borough	Jefferson	\$1,636	\$1,455	\$1,637
Union Township	Jefferson	\$4,893	\$4,383	\$4,933

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

Corsica Volunteer Fire Company

Mr. Robert Finnefrock, President CORSICA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION Jefferson County

We have conducted a compliance audit of the Corsica 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, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2008 to December 31, 2010.

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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

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 Corsica Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief 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 those requirements and that we considered to be significant within the context of the audit objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting

the Corsica Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Corsica Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2010, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objective.

The results of our audit, for the period January 1, 2008 to December 31, 2010, found the Corsica Volunteer Firefighters' Relief Association, in all significant respects, received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed later in this report. The results of our tests also indicated the Corsica Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$13,746 and an investment balance with a fair value of \$6,500.

Finding No. 1 – Failure to Define Discretionary Benefits

Finding No. 2 – Failure to Maintain Minutes of Meetings

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

March 17, 2011

JACK WAGNER Auditor General

CORSICA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

<u>Finding No. 1 – Failure to Define Discretionary Benefits</u>

<u>Condition</u>: The relief association, on October 22, 2008, paid \$2,500 in discretionary benefits to a relief member who had filed for disability and was no longer able to participate in fire service. This disbursement was made to assist this relief member with his financial difficulties. Although such expenditures are authorized by Act 118, the types, amounts, and criteria to be met before receiving such benefits are not described in a formal policy and included in the relief association bylaws.

Criteria: Act 118 at 35 Pa.C.S. § 7413 (3) and (5) states, funds shall be available:

- (3) For payment, either by insurance or by operation of a beneficial fund, of a sum certain to designated beneficiaries of a participating member following the death of a member for any cause and **to establish criteria which members must meet in order to qualify** as participants in a death benefit fund. (emphasis added)
- (5) Financial assistance to volunteer firefighters who, after having actively participated in the fire service **for a specified minimum term,** are no longer physically able to continue participation and are in need of financial assistance. (emphasis added)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, disability benefits, officer compensation, or any other type of discretionary benefit provided by Act 118, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal relief association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well as the criteria to be met in order to receive the benefits.

<u>Cause</u>: Relief association officials were not aware of the specific stipulations of Act 118 and did not perceive formal approval to be an essential internal control in safeguarding relief association assets. As a result, they failed to establish procedures to formally define the benefits and related criteria for the benefits offered to members.

<u>Effect</u>: The relief association's failure to formally define discretionary benefits increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the relief association.

CORSICA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding – No. 1 (Continued)

<u>Recommendation</u>: We recommend relief association officials formally define and document the criteria of the discretionary benefits being offered to its membership. The formal approval of benefits and related criteria should be documented in the bylaws, a policy statement, and in the official meeting minutes, and should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the criteria to be met before receiving the benefit. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

<u>Management's Response</u>: 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.

CORSICA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

<u>Finding No. 2 – Failure to Maintain Minutes of Meetings</u>

Condition: The relief association did not maintain minutes of meetings as required by Act 118. Meeting minutes were only provided for four meetings held during the three year audit period. Since the relief association conducts monthly meetings, minutes for 36 meetings should have been maintained. Furthermore, as a result of the association's failure to maintain minutes for the remaining 32 meetings, there is no evidence of the relief association membership's approval of relief association expenditures totaling \$42,542 for the current audit period.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

. . . must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

<u>Cause</u>: Relief association officials were unaware that maintaining minutes of meetings was required by Act 118.

<u>Effect</u>: Without detailed minutes of meetings, verification that relief association business was presented before the membership for approval does not exist.

<u>Recommendation</u>: We recommend relief association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record of 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.

<u>Management's Response</u>: 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.

CORSICA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION ACCOMPANYING EXPENDITURE INFORMATION FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2010

Act 118 at 35 Pa.C.S. § 7412 states: 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. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 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.

Furthermore, 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	\$ 14,746
Relief benefits	2,500
Tokens of sympathy and goodwill	118
Total Benefit Services	\$ 17,364
Fire Services:	
Equipment purchased	\$ 16,722
Equipment maintenance	6,597
Training expenses	 586
Total Fire Services	\$ 23,905
Administrative Services:	
Miscellaneous administrative expenses	\$ 1,273
Total Administrative Services	\$ 1,273

CORSICA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett Governor Commonwealth of Pennsylvania

Corsica Volunteer Firefighters' Relief Association Governing Body:

Mr. Robert Finnefrock, President

Mr. Kenneth Anthony, Vice President

Ms. Tracy Finnefrock, Secretary

Ms. Cindy L. Anthony, Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report.

Ms. Wendy Taylor, Secretary

Ms. Melissa Kemmer-Daugherty, Secretary

Clarion Township Limestone Township

Ms. Tammy Laird, Secretary Ms. Tracy Finnefrock, Secretary

Corsica Borough Union 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.