

THE FRANKLINTOWN FIREFIGHTERS' RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

FRANKLINTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

YORK COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005 TO DECEMBER 31, 2008



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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 Franklinton 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.

BACKGROUND (Continued)

The Franklinton 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>	<u>2008</u>
Carroll Township	York	\$10,263	\$10,527	\$10,471	\$11,118
Franklin Township	York	\$14,673	\$ 2,861	\$14,953	\$15,417
Franklinton Borough	York	\$ 2,840	\$14,898	\$ 2,929	\$ 2,983
Washington Township	York	\$ 5,714	\$ 5,739	\$ 5,793	\$ 6,097

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

Franklinton and Community Fire Company

Mr. Michael Whitzel, President
FRANKLINTOWN VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
York County

We have conducted a compliance audit of the Franklinton 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, 2008.

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

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 Franklinton 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 those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Franklinton Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Franklinton Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. 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 objectives.

The results of our audit for the period January 1, 2005 to December 31, 2008, found, in all significant respects, the Franklinton 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 Franklinton Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$68,273 and an investment balance with a fair value of \$20,879.

Finding No. 1 – Undocumented Expenditure

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Inadequate Financial Record-Keeping System

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Officer's Bond Coverage

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

August 10, 2009

JACK WAGNER
Auditor General

FRANKLINTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Franklinton 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 –
Inadequate Financial Record-Keeping System

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain Officer's Bond Coverage

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

FRANKLINTOWN 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 \$2,512 expenditure to an insurance provider on May 16, 2005.

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: 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 an invoice, made it impossible to determine if the expenditure was made in accordance with Act 84.

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as an invoice, to determine the validity of the expenditure or that the relief association be reimbursed \$2,512 for the undocumented expenditure. We also 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.

FRANKLINTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Inadequate Financial Record-Keeping System

Condition: As cited in the prior audit report, 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 for the relief association's savings account.
- Ledgers were not utilized to record the transactions of the relief association's checking and savings accounts.
- Investment rosters were not maintained to account for the purchase and sale of certificates of deposit.

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: While notified of this condition in the prior audit report, relief association officials neglected their responsibility to establish and maintain an adequate system of accounting and record keeping.

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 again 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.

FRANKLINTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Officer's Bond Coverage

Condition: As cited in the prior audit report, the relief association did not maintain a bond in a sufficient amount to cover the authorized disbursing officer as required by Act 84. The relief association increased its bond coverage amount, effective January 1, 2006, to \$60,000. However, the relief association failed to maintain continuous bond coverage on the disbursing officer. Specifically, the relief association's bond coverage lapsed on January 2, 2007, and the relief association was without bond coverage from January 2, 2007 through August 23, 2007. The relief association's coverage again lapsed on August 25, 2008, and the relief association was without coverage from August 25, 2008 through January 12, 2009.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary, or otherwise, shall be bonded by corporate surety for the faithful performance of his duties. The amount of such bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on such bond shall be a proper charge against the funds of the association.

Cause: While notified in the prior audit report of the necessity to maintain adequate bond coverage, relief association officials did not maintain adequate bond coverage during the audit period. In the first instance, relief association officials did not renew the policy when it lapsed on January 2, 2007. In the second instance, the insurance company changed its name and relief association officials, unaware of the name change, erroneously disregarded the requests for payment from the newly named insurance company.

Effect: As a result of the disbursing officer of the relief association not being bonded, the relief association's cash assets were not adequately safeguarded.

However, subsequent to the audit period, on January 13, 2009, after bringing this matter to the relief association's attention, the relief association obtained bond coverage in an amount greater than the balance of cash assets.

Recommendation: We again recommend the relief association maintain officer's bond coverage in an amount greater than the maximum cash balance, as required by Act 84. 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.

FRANKLINTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2008

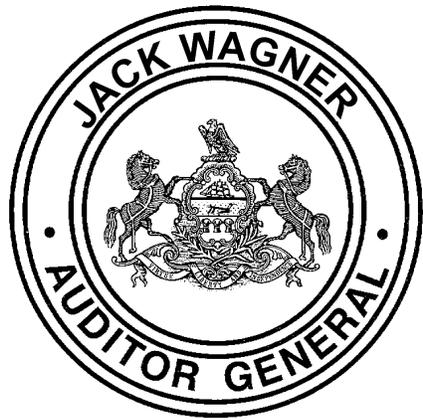
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 9,790
Total Benefit Services	<u>\$ 9,790</u>
Fire Services:	
Equipment purchased	\$ 108,113
Equipment maintenance	4,384
Training expenses	4,273
Fire prevention materials	6,138
Total Fire Services	<u>\$ 122,908</u>
Administrative Services:	
Miscellaneous administrative expenses	\$ 6,751
Total Administrative Services	<u>\$ 6,751</u>
Total Investments Purchased	<u>\$ 77,746</u>
Other Expenditures:	
Undocumented expenditure	\$ 2,512
Total Other Expenditures	<u>\$ 2,512</u>



FRANKLINTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Franklintown Volunteer Firefighters' Relief Association Officers:

Mr. Michael Whitzel, President
Mr. Robert Wolfe, Vice President
Ms. Alicia Kromer, Secretary
Ms. Susan Deck, Treasurer

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

Ms. Faye L. Romberger, Secretary
Carroll Township

Ms. Nancy E. Zentmeyer, Secretary
Franklin Township

Ms. Deborah Walker, Secretary
Franklintown Borough

Ms. Diane J. Deardorff, Secretary
Washington 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.