



GALETON FIREMEN'S RELIEF ASSOCIATION

POTTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2009



CONTENTS

Background.....	1
Letter From the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster	6
Finding No. 2 – Failure to Segregate Relief Association Officers' Duties	7
Accompanying Expenditure Information	8
Report Distribution List	9



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 Galeton Firemen's Relief Association, herein referred to as Galeton 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 Galeton Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Galeton Borough	Potter	\$6,070	\$6,215	\$5,557
Hector Township	Potter	\$1,082	\$1,111	\$1,015
Pike Township	Potter	\$2,652	\$2,729	\$2,487
Ulysses Township	Potter	\$2,557	\$2,632	\$2,306
Gaines Township	Tioga	\$4,928	\$5,003	\$4,627

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

Gale Hose Company
Goodyear Hose Company

Mr. Robert E. Martin, President
GALETON VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Potter County

We have conducted a compliance audit of the Galeton 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, 2007 to December 31, 2009.

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 Galeton 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 Galeton Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Galeton Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, 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, 2007 to December 31, 2009, found the Galeton Volunteer Firefighters' Relief Association took appropriate corrective action to address the findings contained in our prior audit report, except for Finding No. 1 listed below and discussed later in this report. In addition, the results of our audit found, in all significant respects, the Galeton Volunteer Firefighters' Relief Association received and expended 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 Galeton Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2009, had a cash balance of \$43,763 and an investment balance with a fair value of \$43,144.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Failure to Segregate Relief Association Officers' Duties

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

March 22, 2010

JACK WAGNER
Auditor General

GALETON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Inadequate Signatory Authority for the Disbursement of Funds

By requiring more than one signature on all negotiable instruments.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Galeton Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This issue is further discussed in the finding listed below and noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

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.

GALETON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the prior audit report, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. The relief association did not provide an equipment roster during the current audit. While a roster had been maintained for equipment purchased in previous audits, it was incomplete since none of the equipment purchased since 2002 had been recorded. As such, there was no indication that an inventory of the equipment was performed to account for the relief association's fixed assets.

Criteria: The relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's fixed assets. A cumulative roster of all relief association equipment should include the following:

- Type of equipment purchased.
- Date of purchase.
- Unit cost.
- Name of supplier.
- Serial number, if applicable.
- Current location of item.
- Final disposition of sold or damaged equipment.
- Notation of the annual inventory.

Cause: While notified of this condition in the prior audit report, relief association officials neglected to establish adequate internal control procedures over fixed assets to include the maintenance of a cumulative equipment roster and the performance of an annual equipment inventory.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual equipment inventory prevents adequate accountability and safeguarding of relief association assets.

Recommendation: We again recommend the relief association officials maintain a cumulative roster of all relief association owned equipment. Furthermore, the relief association should ensure they perform an annual inventory of all operable equipment and that the inventory be sufficiently documented. 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.

GALETON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Segregate Relief Association Officers' Duties

Condition: During the audit, we detected that the same individual holds the position of both secretary and treasurer within the relief association. As such, one individual is currently responsible for both, documenting the authorization of the association's financial transactions, as well as recording and executing the association's financial transactions.

Criteria: Prudent business practice dictates that the duties of the secretary and treasurer be sufficiently segregated. Segregation of duties is the primary internal control intended to prevent or decrease the risk of errors or irregularities.

The minimum requirements of the secretary's position, pertaining to a relief association, are to maintain detailed minutes of meetings authorizing the relief association's financial operations. The secretary should review and coordinate the amending of the bylaws governing the relief association so that the bylaws meet the minimum requirements of Act 84.

The minimum requirements of the treasurer's position, pertaining to a relief association, are to maintain an account of all funds belonging to the relief association. The treasurer shall maintain a journal and ledger detailing all financial transactions of the relief association along with documentation supporting the receipts and disbursements. The treasurer should co-sign all negotiable instruments along with another relief association officer. Also, financial statements should be prepared at least on an annual basis by the treasurer.

Cause: Relief association officials were unaware that one person being responsible for the record-keeping that authorizes a financial transaction and also being responsible for the record-keeping that records a financial transaction negates internal controls.

Effect: Inadequate segregation of duties could prevent relief association officials and members from effectively monitoring the relief association's financial transactions. Additionally, inadequate segregation of duties negates the checks and balances necessary to detect and correct financial errors or irregularities in the relief association's accounting system.

Recommendation: We recommend the relief association ensure that those responsibilities normally performed by the secretary and treasurer be performed by separate officers. We also recommend that the relief association review its accounting and internal control procedures to ensure that the relief association assets are adequately safeguarded. 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 and indicated they will take action to comply with the recommendation.

GALETON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2009

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	\$ 9,629
Relief benefits	250
Total Benefit Services	\$ 9,879
Fire Services:	
Equipment purchased	\$ 46,302
Equipment maintenance	3,563
Training expenses	1,087
Total Fire Services	\$ 50,952
Administrative Services:	
Miscellaneous administrative expenses	20
Total Administrative Services	\$ 20
Total Investments Purchased	\$ 28,467

GALETON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Galeton Volunteer Firefighters' Relief Association Governing Body:

Mr. Robert E. Martin, President

Mr. Larry Button, Vice President

Ms. Alaina Knisely, Secretary/Treasurer

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

Ms. Andrea L. Caracciolo, Secretary
Galeton Borough

Mr. Basil J. McCutcheon, Secretary
Hector Township

Mr. George A. Bowen, Jr., Secretary
Pike Township

Ms. Nancy Kosa, Secretary
Ulysses Township

Ms. Beverley A. Davis, Secretary
Gaines 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.