



GRAND VALLEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

GRAND VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

WARREN COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 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 Grand Valley 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 Grand Valley Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Eldred Township	Warren	\$3,785	\$3,711	\$3,797
Southwest Township	Warren	\$1,400	\$1,430	\$1,463
Triumph Township	Warren	\$ 717	\$ 714	\$ 724

BACKGROUND (Continued)

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

Grand Valley Volunteer Fire Department

Mr. Richard Stewart, President
GRAND VALLEY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Warren County

We have conducted a compliance audit of the Grand Valley 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, 2006 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 Grand Valley 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 Grand Valley Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Grand Valley 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, 2006 to December 31, 2008, found the Grand Valley Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the five findings contained in our prior audit report. However, the Grand Valley Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining three findings in our prior audit report as listed below and discussed in detail in the Status of Prior Findings section of this report. In addition, the results of our audit found, in all significant respects, the Grand Valley 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 in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Grand Valley Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$4,644 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditure

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 4 – Untimely Deposit of State Aid

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

December 28, 2009

JACK WAGNER
Auditor General

GRAND VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Grand Valley Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Failure to Define Discretionary Benefits

By discontinuing the payment of discretionary benefits.

- Failure to Maintain Minutes of Meetings

By maintaining all relief association minutes.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Grand Valley Volunteer Firefighters' Relief Association has not complied with these prior audit findings. These issues are further discussed in the findings listed below as noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation – Unauthorized Expenditure
- Noncompliance With Prior Audit Recommendation – Failure to Obtain a Federal Tax Identification Number
- Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster

It should be noted that while the relief association obtained reimbursement of \$656 from the affiliated fire company for the unauthorized expenditure made in the prior audit period, it made an additional unauthorized expenditure in the current audit period, as discussed in Finding No. 1 contained in the Findings and Recommendations section of this report.

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

GRAND VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditure

Condition: As cited in our prior audit report, the relief association expended \$615 for general liability insurance covering the fire company building and grounds which is not authorized by Act 84.

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 firemen 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.

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) has been established whereby the DCED provides interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." Payment for general liability insurance on the fire company building and grounds has been deemed by DCED to not qualify as an authorized expenditure.

GRAND VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: While notified of this condition during our prior audit, relief association officials neglected to implement our previously reported recommendation.

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

Recommendation: We again recommend the relief association cease paying for general liability insurance covering fire company building and grounds. We further recommend the relief association be reimbursed \$615 for the unauthorized expenditure and 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.

GRAND VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

Condition: The relief association officials, again, failed to comply with the Tax Equity and Fiscal Responsibility Act by failing to obtain a federal tax identification number. The relief association is inappropriately using the fire service organization's federal tax identification number, as 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 the 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, as an estimate of federal income taxes due.

Cause: While notified of this condition during our prior audit, 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 will cause the relief association to be assessed taxes 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.

GRAND VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials, again, failed to maintain a complete and accurate roster of equipment owned by the relief association. The relief association did have a list of bunker gear, pagers and radios; however, the list lacked supporting information. While a roster of relief association owned equipment was provided for the years 1983 through 2002, the roster did not include equipment purchased during or subsequent to the financial period under review. Furthermore, there was no indication that a physical inventory of the equipment was conducted to account for all of 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 equipment 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; and
- Evidence of the results of the annual physical inventory of equipment.

Furthermore, sound business practice requires the performance of an annual physical inventory of all relief association owned equipment.

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

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

GRAND VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We again recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of 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.

GRAND VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Untimely Deposit of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2008 state aid allocation it received from Southwest Township, in the amount of \$1,463, until January 5, 2009, which is more than 52 days from the November 14, 2008 date that the municipal treasurer distributed the funds to the volunteer firefighters' relief association.

Criteria: The municipal treasurer is required to forward the tax allocation to the volunteer firefighters' relief association within 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 deposited in a timely manner.

Cause: The relief association failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. 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 and indicated they will take action to comply with the recommendation.

GRAND VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 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	\$ 715
Total Benefit Services	\$ 715
Fire Services:	
Equipment purchased	\$ 27,804
Total Fire Services	\$ 27,804
Administrative Services:	
Miscellaneous administrative expenses	\$ 22
Total Administrative Services	\$ 22

GRAND VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Grand Valley Volunteer Firefighters' Relief Association Governing Body:

Mr. Richard Stewart, President

Mr. Carl Lindquist, Vice President

Ms. Connie Tenney, Secretary

Mr. Robert McClelland, Treasurer

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

Ms. Diana M. Maille, Secretary
Eldred Township

Ms. Barbara A. Kemp, Secretary
Southwest Township

Mr. Richard L. Brown, Secretary
Triumph 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.