

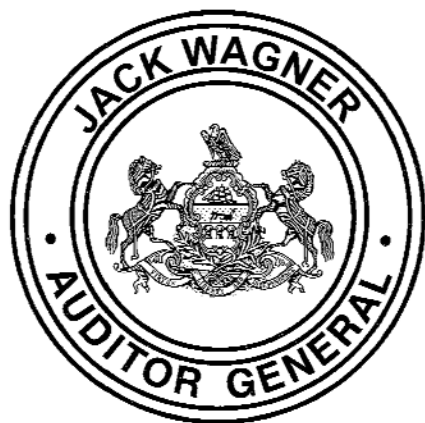
**THE LORAIN BOROUGH FIRE COMPANY RELIEF ASSOCIATION**

**CAMBRIA COUNTY**

**COMPLIANCE AUDIT REPORT**

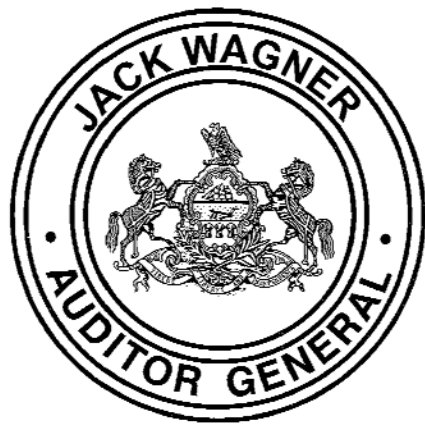
**FOR THE PERIOD**

**JANUARY 1, 2007 TO NOVEMBER 2, 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 Lorain Borough Fire Company Relief Association, herein referred to as Lorain Borough Volunteer Firefighters' Relief Association, was 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 Lorain Borough Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Lorain Borough	Cambria	\$3,330	\$3,424	\$3,086

As of November 2, 2010, the Lorain Borough Volunteer Firefighters' Relief Association dissolved its organization and transferred its assets to Oakland Volunteer Firefighters' Relief Association. Thereafter, it did not receive any further state aid allocations (see Accompanying Expenditure Information section of this report).

The volunteer firefighters' relief association and the affiliated fire service organization were separate, legal entities. The Lorain Borough Volunteer Firefighters' Relief Association was affiliated with the Lorain Borough Volunteer Fire Company.

Mr. Dan Kiser, President  
LORAIN BOROUGH VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Cambria County

We have conducted a compliance audit of the Lorain Borough 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, 2007 to November 2, 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 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 Lorain Borough 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 objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Lorain Borough Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Lorain Borough Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of November 2, 2010, 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 November 2, 2010, found the Lorain Borough Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the three findings contained in our prior audit report. However, the Lorain Borough Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Lorain Borough 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 finding listed below and discussed in detail in the Finding and Recommendation section of this report. The results of our tests also indicated the Lorain Borough Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information. However, as of November 2, 2010, Lorain Borough Volunteer Firefighters' Relief Association dissolved and all remaining monetary assets were transferred to the Oakland Volunteer Firefighters' Relief Association. (See Accompanying Expenditure Information section of this report).

Finding – 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 Lorain Borough Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

November 8, 2010

JACK WAGNER  
Auditor General



LORAIN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Undocumented Expenditure

By receiving reimbursement from the Lorain Borough Volunteer Fire Company, in the amount of \$283 for the undocumented expenditure that was made during the prior audit period. In addition, we did not detect any additional undocumented expenditures during the current audit period.

- Inadequate Minutes of Meetings

By maintaining detailed minutes of all relief association meetings.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Lorain Borough Volunteer Firefighters' Relief Association again failed to comply with the following repeat audit finding. This finding is noted below and discussed in detail in the Finding and Recommendation 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 continued failure to correct this audit finding. As a result the Lorain Borough Volunteer Firefighters' Relief Association dissolution and transfer of assets to Oakland Volunteer Firefighters' Relief Association, the management of Oakland Volunteer Firefighters' Relief Association should ensure it adheres to the recommendation noted in this audit report.

LORAIN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

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

Condition: As cited in our prior three audit reports, the relief association, again, failed to comply with the Tax Equity and Fiscal Responsibility Act by not maintaining a federal tax identification number. The relief association was 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 during our three prior audits, the relief association officials, again, neglected to apply for the relief association's own federal tax identification number.

Effect: Failure to comply with the Tax Equity and Fiscal Responsibility Act could have caused 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.

Management's Response: Lorain Borough Volunteer Firefighters' Relief Association management agreed with the finding as presented at the audit exit conference.

Recommendation: Due to the dissolution of Lorain Borough Volunteer Firefighters' Relief Association and the transfer of its assets to the Oakland Volunteer Firefighters' Relief Association, we are making this recommendation to Oakland Volunteer Firefighters' Relief Association. We recommend the Oakland Volunteer Firefighters' Relief Association ensure it has its own federal tax identification number through the Internal Revenue Service and furnishes this number to its financial institutions.

LORAIN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2007 TO NOVEMBER 2, 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.

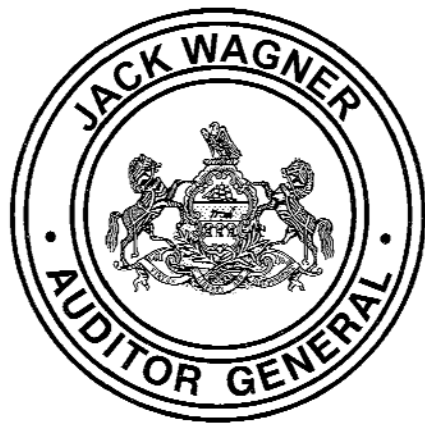
Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 3,468
Total Benefit Services	\$ 3,468
Fire Services:	
Equipment purchased	\$ 1,224
Equipment maintenance	4,785
Training expenses	1,809
Total Fire Services	\$ 7,818
Other Expenditures:	
Transfer of monetary assets *	\$ 299
Total Other Expenditures	\$ 299

\* Transfer of Monetary Assets

On October 11, 2010, the membership of the Lorain Borough Volunteer Firefighters' Relief Association voted to approve the dissolution of its relief association and the subsequent transfer of assets to the Oakland Volunteer Firefighters' Relief Association. As of November 2, 2010, the Lorain Borough Volunteer Firefighters' Relief Association completed the process of dissolution by transferring ownership of its equipment inventory and monetary assets to the Oakland Volunteer Firefighters' Relief Association.



LORAIN BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Lorain Borough Volunteer Firefighters' Relief Association Governing Body:

Mr. Dan Kiser, President

Mr. Charles Bevec, Vice President

Mr. Richard Rutledge, Secretary

Mr. Paul Rutledge, Treasurer

Oakland Volunteer Firefighters' Relief Association Governing Body:

Mr. David Thomas, President

Mr. Larry Plovish, Vice President

Ms. Sharon Montag, Secretary

Mr. William Knipple, Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Amy Lee Gmuca, Secretary  
Lorain Borough

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](http://www.auditorgen.state.pa.us).