



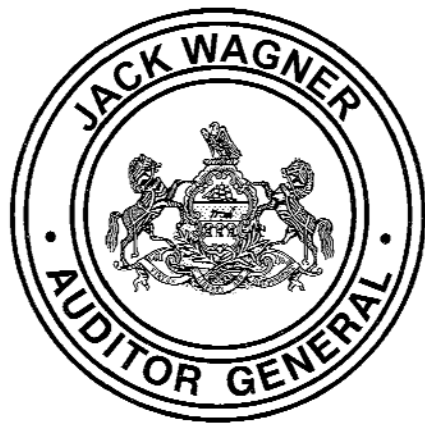
**THE NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
OF NEEDMORE, FULTON COUNTY PENNSYLVANIA**

FULTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005 TO DECEMBER 31, 2009



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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 Needmore Volunteer Fireman's Relief Association of Needmore, Fulton County Pennsylvania, herein referred to as Needmore 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 Needmore 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>	<u>2009</u>
Belfast Township	Fulton	\$7,615	\$8,049	\$8,381	\$8,641	\$8,379
Bethel Township	Fulton	\$8,217	\$8,672	\$9,372	\$9,744	\$9,151
Brush Creek Township	Fulton	\$2,374	\$2,417	\$2,405	\$2,488	\$2,321
Licking Creek Township	Fulton	\$2,761	\$2,906	\$3,080	\$3,147	\$2,986
Thompson Township	Fulton	\$5,993	\$6,397	\$6,370	\$6,678	\$6,803
Union Township	Fulton	\$3,650	\$3,877	\$3,915	\$4,099	\$3,715

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

Needmore Volunteer Fire Company

Ms. Wavy Kirk, President
NEEDMORE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Fulton County

We have conducted a compliance audit of the Needmore 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, 2005 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 Needmore 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 Needmore Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Needmore 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, 2005 to December 31, 2009, found the Needmore Volunteer Firefighters' Relief Association took appropriate corrective action to address the findings contained in our prior audit report and, 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 Needmore Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$26,481 and an investment balance with a fair value of \$3,763.

Finding No. 1 – Misappropriation of Assets

Finding No. 2 – Undocumented Loan

Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds

Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster

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

August 6, 2010

JACK WAGNER
Auditor General

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Untimely Deposit of State Aid

By adopting internal control procedures to ensure the timely deposit of all income received.

- Unauthorized Expenditure

By receiving reimbursement from the Needmore Volunteer Fire Company, in the amount of \$523, for the unauthorized expenditure made during the prior audit period. In addition, we did not detect any additional unauthorized expenditures during the current audit period.

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Misappropriation of Assets

Condition: Investment assets of the relief association totaling \$43,995 were misappropriated by the relief association investment advisor. Relief association officials failed to monitor funds invested with this local investment advisor who was charged with securities fraud on July 30, 2009.

During the prior audit period, the relief association held investments, provided by this local investment advisor, valued at approximately \$40,339. During the current audit period, the relief association invested another \$5,000 with this same investment advisor. During the current audit, we determined this investment advisor commingled relief funds, mishandled the relief investments by moving money in and out of accounts without relief association knowledge, and invested in extremely risky investments. On July 30, 2009, the U.S. Securities and Exchange Commission charged this investment advisor, and his firm, with securities fraud alleging that he misappropriated hundreds of thousands of dollars from multiple investors.

By October 2009, only \$1,344 of the relief association's original investment remained; the relief association invested these funds in another account with another investment advisor. However, the relief association, again, failed to monitor the activity of this account.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), [FN1] known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

In addition, Article III, Section 1, of the relief association Constitution states, in part:

All funds of the Association, as the same may be accumulated, shall be invested to the best possible advantage, as directed by the association.

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, Article II, Section 6, of the relief association's bylaws, states:

It shall be the duties of the Trustees, and they are hereby authorized and empowered in conjunction with the treasurer upon approval by the Association, to invest funds of the Association as outlined in Article III of the Constitution. They shall make annual reports to the Association, or oftener requested by the Association.

Cause: Relief association officials failed to obtain monthly investment statements, monitor investment activities, and take corrective action. The relief association officials awarded the investment advisor full control over the funds in the account.

Effect: The relief association officials' failure to effectively monitor investment activity, increased the risk that the investment advisor would misappropriate funds.

Recommendation: We recommend that relief association officials seek restitution of the misappropriated funds totaling \$43,995. In addition, relief association officials should monitor all investments by obtaining monthly investment statements from their investment advisor and review the statements for validity and accuracy. 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.

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Loan

Condition: On July 14, 2009, the relief association made a loan to the Needmore Volunteer Fire Company, in the amount of \$2,500, without a formal written loan agreement that secured its assets and charged interest on the principal of the loan. Furthermore, determined that from July 14, 2009 to our audit exit conference date of August 6, 2010, the relief association did not collect any loan payments from the fire company.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any obligation of an incorporated fire company, provided that the obligation is: (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

Cause: Relief association officials were unaware that the loan to the fire company should have been documented in a formal loan agreement between the relief association and fire company detailing terms, interest rate, and repayment schedule to ensure compliance with Act 118 provisions.

Effect: Failure to adequately document the loan in a formal written agreement places the loan principal at greater risk.

Recommendation: We recommend the relief association and fire company prepare a formal written loan agreement, signed by both parties, specifying the payment schedule and the interest rate. The loan agreement must also specifically identify the collateral to protect the investment as required by Act 118 at 35 Pa.C.S. § 7416(c)(3). In addition, the relief association should seek payments from the fire company as soon as possible. If such action is not taken, we recommend that the loan be immediately liquidated. 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.

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds

Condition: On August 11, 2008, the relief association and fire company entered into a Lease With Option Purchase Agreement with a leasing company. However, only one relief association officer signed the lease agreement.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

Cause: Relief association officials were unaware of the Act 118 provision, which requires the signature of at least two officers to bind the relief association by formal contract.

Effect: Since only one of the relief association officers signed the lease agreement, funds expended as a result of this agreement were placed at greater risk, as the agreement was not legally binding.

Recommendation: We recommend the relief association officials adopt procedures which would require the signatures of at least two officers on all relief association contracts, as required by Act 118. 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.

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While a roster was maintained for equipment purchased dating back to 2000, it was incomplete since none of the equipment purchased since July 29, 2007, was recorded. The relief association purchased \$69,375 of equipment in calendar years 2008 and 2009, none of which was recorded on the equipment roster. Furthermore, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted 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:

- Types of equipment purchased;
- Dates of purchases;
- Unit costs;
- Names of suppliers;
- Serial numbers, if applicable;
- Current locations of items;
- Final dispositions of sold or damaged equipment; and
- Evidence of the results of an annual physical inventory.

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

Cause: Relief association officials failed 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. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of fixed assets prevents adequate accountability for, and safeguarding of, relief association fixed assets

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We 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.

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2009

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	\$ 27,063
Tokens of sympathy and goodwill	245
Total Benefit Services	<u>\$ 27,308</u>
Fire Services:	
Equipment purchased	\$ 101,762
Equipment maintenance	44,850
Training expenses	1,283
Fire prevention materials	778
Total Fire Services	<u>\$ 148,673</u>
Administrative Services:	
Miscellaneous administrative expenses	<u>\$ 15,367</u>
Total Administrative Services	<u>\$ 15,367</u>
Total Investments Purchased	<u>\$ 6,344</u>
Other Expenditures:	
Principal payments on loan	\$ 15,714
Interest payments on loan	6,713
Principal payments on lease-financing	15,554
Interest payments on lease-financing	4,446
Undocumented loan	2,500
Total Other Expenditures	<u>\$ 44,927</u>

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Needmore Volunteer Firefighters' Relief Association Governing Body:

Ms. Wavy Kirk, President

Mr. Michael Hann, Vice President

Ms. Mary Hann, Secretary

Ms. Donna S. Carbaugh, Treasurer

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

Ms. Paula Shives, Secretary
Belfast Township

Ms. Donna Jean Lynch, Secretary
Bethel Township

Ms. Helen L. Layton, Secretary
Brush Creek Township

Ms. Lu Anne Keebaugh, Secretary
Licking Creek Township

Mr. D. Gene Mellott, Secretary
Thompson Township

Ms. Carolyn M. Willis, Secretary
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.