

**THE OLYPHANT VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION,
LACKAWANNA COUNTY, PENNSYLVANIA**

HEREIN REFERRED TO AS:

OLYPHANT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

LACKAWANNA COUNTY

COMPLIANCE AUDIT REPORT

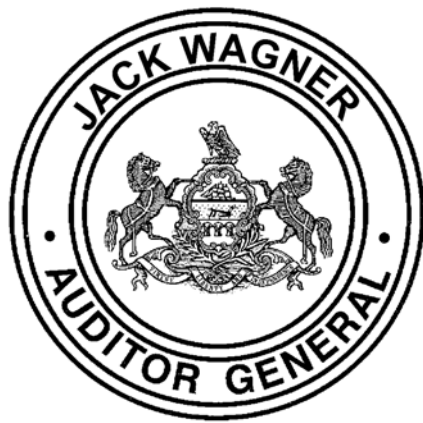
FOR THE PERIOD

JANUARY 1, 2006 TO DECEMBER 31, 2007



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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 Olyphant 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 Olyphant Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>
Olyphant Borough	Lackawanna	\$23,487	\$24,569

BACKGROUND (Continued)

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

Eureka Hose Company No. 4
Excelsior Hose Company No. 1
Olyphant Hose and Engine Company No. 2
Queen City Hose Company No. 8

Mr. Brian Doughton, President
OLYPHANT VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lackawanna County

We have conducted a compliance audit of the Olyphant 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 o December 31, 2007.

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 finding 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 Olyphant 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 applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objectives. We also tested transactions, confirmed the Olyphant Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2007, with the custodians of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our audit for the period January 1, 2006 to December 31, 2007, found, in all significant respects, the Olyphant 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 Olyphant Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$67,403 and an investment balance with a fair value of \$32,042.

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

Finding No. 2 – Unauthorized Expenditure

Finding No. 3 – Undocumented Expenditure

Finding No. 4 – Inappropriate Presigning of Blank Checks

Finding No. 5 – Inadequate Financial Record-Keeping System

Finding No. 6 – Inadequate Relief Association Bylaws

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

December 2, 2008

JACK WAGNER
Auditor General

OLYPHANT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Olyphant Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This issue is further discussed in the following finding 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 the previously reported audit finding. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

OLYPHANT 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 four audit reports, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. For the current audit period, relief association officials did not provide a roster of relief association owned equipment. As such, there was no indication that an annual inventory of the equipment was performed to account for the relief association's fixed assets. For the prior audit engagement, a roster of equipment applicable to one out of the four affiliated fire service organizations was provided. While it is not necessary for each of the affiliated fire companies and the relief association to maintain separate rosters of equipment, it is the relief association's responsibility to have sufficient records to be able to determine that all equipment purchased by the relief association has been recorded and can be accounted for.

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 four audit reports, 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.

OLYPHANT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend the relief association officials maintain a cumulative roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs 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.

OLYPHANT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditure

Condition: Subsequent to the audit period, on January 30, 2008, the relief association expended \$486 for a fire company officer installation dinner that is not authorized by Act 84.

Criteria: Act 84 at 53 P.S. § 8506(e)(1) states:

The funds of any volunteer firefighters' relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of its affairs including legal fees and including but not by way of limitation the rental or purchase of offices, the payment of reasonable compensation of any needed employees, and the purchase of office equipment and supplies.

Because 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) had been established whereby the DCED provided interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." Installation dinners for fire company officers have been deemed by DCED to not qualify as a business expense for relief associations; consequently, this disbursement is not authorized under Act 84.

Cause: Relief association officials were unaware that the aforementioned expenditure was not authorized by Act 84.

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

However, subsequent to the date of this report, on January 29, 2009, the relief association received full reimbursement from the fire department for the unauthorized expenditure.

Recommendation: We recommend the 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.

OLYPHANT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for a \$306 expenditure to a relief association member on January 23, 2006, for training-related expenses.

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 invoices and training certificates, 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 invoices and training certificates, made it impossible to determine if the expenditure was made in accordance with Act 84 at 53 P.S. § 8506(e).

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices and training certificates, to determine the validity of the expenditure or that the relief association be reimbursed \$306 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.

OLYPHANT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inappropriate Presigning of Blank Checks

Condition: A review of the relief association's checkbook, at the time of the audit engagement, revealed that 10 blank checks were presigned by one of the two relief association officers who are authorized to sign checks. The presigning of blank checks negates the relief association's internal control over the disbursement process.

Criteria: Prudent business practice dictates that the relief association have sufficient internal control procedures in place to prohibit the presigning of blank checks. Good internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: The relief association's officers were aware of the necessity for two signatures but did not realize that applying the second signature prior to evaluating the propriety of the expenditure negated the relief association's internal controls over the disbursement process.

Effect: As a result of the relief association officer presigning the blank checks, financial transactions could occur without the knowledge of the other association officers and without the approval of the membership. The application of the second signature prior to evaluating the propriety of the expenditure increases the risk of errors occurring and going undetected and increases the risk of misappropriation.

Recommendation: We recommend that the practice of presigning blank checks be immediately discontinued. We also recommend that all of the relief association officers ensure that checks are signed and co-signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. 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.

OLYPHANT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Inadequate Financial Record-Keeping System

Condition: 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 to record the receipts and disbursements of the relief association.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Annual financial statements were not provided.

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: Relief association officials were unaware of their various record-keeping responsibilities.

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 recommend the relief association establish and maintain a financial record-keeping system that 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.

OLYPHANT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 6 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the Olyphant Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 84 at 53 P.S. § 8505(c). Specifically, the bylaws do not address:

- The requirement that one of the signatures on all negotiable instruments be that of the disbursing officer.
- The procedures for the approval and payment of expenditures, and for the investment of funds and the sale of investments.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that the relief association's bylaws shall include the following provisions:

- Require the signatures of at least two officers, **one of which shall be the disbursing officer**, in order to bind the relief association by formal contract or to issue any negotiable instrument. (emphasis added)
- Establish procedures for the approval and payment of expenditures, and for the investment of funds and the sale of investments.

Cause: Relief association officials were unaware of the mandatory bylaw provisions established by Act 84.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 84 and properly authorize the operating procedures of the relief association. 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.

OLYPHANT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2007

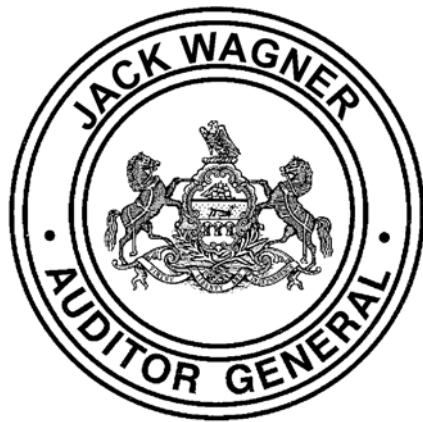
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 6,360
Death benefits	1,000
Total Benefit Services	<u>\$ 7,360</u>
Fire Services:	
Equipment purchased	\$ 31,312
Equipment maintenance	2,939
Training expenses	3,920
Total Fire Services	<u>\$ 38,171</u>
Administrative Services:	
Miscellaneous administrative expenses	\$ 188
Total Administrative Services	<u>\$ 188</u>
Total Investments Purchased	<u>\$ 30,000</u>
Other Expenditures:	
Undocumented expenditure	\$ 306
Total Other Expenditures	<u>\$ 306</u>



OLYPHANT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Olyphant Volunteer Firefighters' Relief Association Officers:

Mr. Brian Doughton, President

Mr. Brian Barilka, Secretary

Mr. Michael J. Yakacki, Treasurer

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

Mr. John Tomcho, Secretary
Olyphant 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.