



PINE TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

PINE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

INDIANA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005 TO DECEMBER 31, 2008



CONTENTS

Background.....	1
Letter From the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Undocumented Expenditures.....	6
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditure	8
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure to Obtain a Federal Tax Identification Number	9
Finding No. 4 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster	10
Finding No. 5 – Failure to Maintain Minutes of Meetings	12
Accompanying Expenditure Information	13
Report Distribution List	15



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 Pine Township 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 Pine Township 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>
Green Township	Indiana	\$ 756	\$ 764	\$ 762	\$ 784
Pine Township	Indiana	\$10,046	\$10,202	\$10,461	\$10,770

BACKGROUND (Continued)

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

Pine Township Volunteer Fire Company

Mr. Dennis Koscho Sr., President
PINE TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Indiana County

We have conducted a compliance audit of the Pine Township 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, 2005 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 Pine Township 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 Pine Township Volunteer Firefighters' Relief Association's cash balance as of December 31, 2008, 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, 2005 to December 31, 2008, found, in all significant respects, the Pine Township Volunteer Firefighters' Relief Association did not receive and expend funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the following findings discussed later in this report. The results of our tests indicated the Pine Township Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$7,479 and no investments.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditure

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

Finding No. 4 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 5 – Failure to Maintain Minutes of Meetings

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

February 17, 2009

JACK WAGNER
Auditor General

PINE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure to Maintain a Complete and Accurate Membership Roster

By maintaining a comprehensive listing of the relief association membership.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Pine Township Volunteer Firefighters' Relief Association has not complied with these prior audit findings. The issues are further discussed in the following findings noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditure

While the relief association obtained reimbursement of \$4,878 from the affiliated fire company for the unauthorized expenditure made in the prior audit period, an additional unauthorized expenditure was made in the current audit period as discussed in Finding No. 2 of this report.

- 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

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.

PINE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
04/30/05	1033	County fireman's association	\$ 655
05/05/06	1055	County fireman's association	665
05/14/07	1067	Commercial insurance package policy*	2,333
06/13/07	1068	County fireman's association	315
07/25/07	1072	Commercial insurance package policy*	1,383
12/12/07	1078	Commercial insurance package policy*	1,859
12/13/07	1079	Commercial insurance package policy*	500
03/13/08	1091	Commercial insurance package policy*	1,871
Total			<u>\$ 9,581</u>

* Typically, commercial insurance package policies involve some insurance coverage that is allowed by Act 84 and some types of coverage that are not considered permissible under Act 84. At the time of the audit engagement, the relief association did not have adequate documentation available to support that the insurance premiums paid were for a type of insurance permissible under Act 84. As such, the above expenditures are being considered as undocumented expenditures.

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 detailed invoices and minutes of meetings, 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 internal control procedures to ensure adequate supporting documentation is maintained for all expenditures.

PINE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: Lack of supporting documentation, such as invoices specifically identifying the service or product purchased and detailed minutes of the association's meetings, made it impossible to determine if the expenditures were made in accordance with Act 84 at 53 P.S. § 8506(e).

However, subsequent to the audit period, on June 22, 2009, the relief association received reimbursement from the affiliated fire company, in the amount of \$9,581, for the undocumented expenditures.

Recommendation: We 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 and indicated they will take action to comply with the recommendation.

PINE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditure

Condition: As cited in the prior audit report, the relief association again expended funds for services that are not authorized under Act 84. During the current audit period, on December 18, 2007, the relief association expended \$463 for maintenance expenses on a vehicle not owned by the relief association.

Criteria: Act 84 at 53 P.S. § 8506(e)(11) states:

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

- (11) To purchase safeguards for preserving life, health, and safety to volunteer firefighters, so as to ensure their availability to participate in the volunteer fire service.

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." The DCED has determined that the relief association may expend funds for various types of safeguards, including maintenance of vehicles, as long as the vehicle is owned by relief association. However, the above disbursement was for maintenance on a fire company vehicle and, thus, has been deemed by DCED to not qualify as an allowable expenditure under Act 84.

Cause: Relief association officials were unaware that the expenditure for maintenance of a fire company vehicle 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 audit period, on June 22, 2009, the relief association received reimbursement from the affiliated fire company, in the amount of \$463, for the unauthorized expenditure.

Recommendation: We again recommend 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 presented at the audit exit conference and indicated they will take action to comply with the recommendation.

PINE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

Condition: As cited in the three prior audit reports, the volunteer firefighters' relief association failed to comply with the Tax Equity and Fiscal Responsibility Act by not maintaining a federal tax identification number. The relief association did not provide documentation to verify that the relief association has its own federal tax identification number.

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 in the three prior audit reports, relief association officials neglected to take corrective action in order to obtain its own federal tax identification number.

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

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.

PINE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the prior two audit reports, 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 updated roster that includes the equipment purchased during the current audit period or the identifying details of the equipment purchased in the prior audit periods. As such, there was no indication that an annual 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 two 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.

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.

PINE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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.

PINE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure to Maintain Minutes of Meetings

Condition: During the audit period, the relief association did not maintain minutes of all meetings as required by Act 84.

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.

Cause: Relief association officials were unaware that maintaining minutes of all meetings was required by Act 84.

Effect: The failure to maintain minutes of all meetings prevented the verification as to whether relief association business was presented before the membership for approval.

Recommendation: We recommend relief association officials maintain a permanent record of all relief association meetings as required by Act 84. The minutes should include an adequate record of all financial-related business conducted by 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.

PINE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 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	\$ 17,072
Total Benefit Services	\$ 17,072
Fire Services:	
Equipment purchased	\$ 33,828
Equipment maintenance	2,630
Training expenses	1,172
Total Fire Services	\$ 37,630
Administrative Services:	
Miscellaneous administrative expenses	\$ 120
Total Administrative Services	\$ 120
Other Expenditures:	
Undocumented expenditures	\$ 9,581
Total Other Expenditures	\$ 9,581



PINE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Pine Township Volunteer Firefighters' Relief Association Officers:

Mr. Dennis Koscho Sr., President

Mr. James Kellichner, Secretary

Mr. Keith Muir, Treasurer

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

Ms. Jennifer Jennings, Secretary
Green Township

Ms. Jennifer Lindahl, Secretary
Pine 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.