



**LOWBER VOLUNTEER FIRE COMPANY OF SEWICKLEY TOWNSHIP
RELIEF FUND ASSOCIATION**

WESTMORELAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2011



CONTENTS

Background.....	1
Letter From the Auditor General	3
Status of Prior Findings	7
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures	8
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure to Maintain Minutes of Meetings.....	10
Finding No. 3 – Unauthorized Expenditures	11
Finding No. 4 – Failure to Renew Sales Tax Exemption	13
Potential Withhold of State Aid.....	14
Accompanying Expenditure Information	15
Report Distribution List	17



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 Lowber Volunteer Fire Company of Sewickley Township Relief Fund Association, herein referred to as Sewickley Township No. 2 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. The Sewickley Township No. 2 Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Sewickley Township	Westmoreland	\$8,557	\$9,632	\$14,090

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Sewickley Township No. 2 Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Lowber Volunteer Fire Company



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Nick Sewchok, President
SEWICKLEY TOWNSHIP NO. 2 VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Westmoreland County

We have conducted a compliance audit of the Sewickley Township No. 2 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, 2009 to December 31, 2011.

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 Sewickley Township No. 2 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 Sewickley Township No. 2 Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Sewickley Township No. 2 Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, 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, 2009 to December 31, 2011, found the Sewickley Township No. 2 Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the four findings contained in our prior audit report. However, the Sewickley Township No. 2 Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining two findings 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 Sewickley Township No. 2 Volunteer Firefighters' Relief Association did not, in all significant respects, receive and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, 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 Sewickley Township No. 2 Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$13,193 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Minutes of Meetings

Finding No. 3 – Unauthorized Expenditures

Finding No. 4 – Failure to Renew Sales Tax Exemption

The contents of this report were discussed with the management of the Sewickley Township No. 2 Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

October 19, 2012

EUGENE A. DEPASQUALE
Auditor General



SEWICKLEY TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Sewickley Township No. 2 Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Theft of Relief Association Equipment

By receiving reimbursement on October 25, 2010, from the Lowber Volunteer Fire Company, in the amount of \$2,000, for two former members' theft of relief association equipment.

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining an inventory roster of all equipment owned and performing an annual physical inventory.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Sewickley Township No. 2 Volunteer Firefighters' Relief Association has not complied with two of the four prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation – Undocumented Expenditures
- Noncompliance With Prior Audit Recommendation – Failure to Maintain Minutes of Meetings

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

SEWICKLEY TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Condition: As cited in our prior audit report, the relief association, again, was unable to provide adequate supporting documentation for certain expenditures, as detailed in the table below. In addition, the relief association was unable to provide adequate supporting documentation for expenditures made during the current audit period.

Prior Audit Period Undocumented Expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/21/08	415	Training	\$ 360
Total Prior Undocumented Expenditures			<u>\$ 360</u>

Current Audit Period Undocumented Expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
07/09/09	445	Equipment	\$ 230
10/01/09	451	Relief association member	7
10/23/09	453	Equipment	131
12/21/09	458	Equipment maintenance	56
01/04/10	460	Equipment	800
01/25/10	470	Training	125
02/03/10	473	Food for training	32
03/26/10	475	Training	217
05/05/10	483	Office supplies	58
10/12/10	485	Training	56
11/12/10	487	Equipment maintenance	34
12/13/10	496	Equipment maintenance	137
02/07/11	504	Training	25
04/15/11	513	Equipment maintenance	<u>141</u>
Total Current Undocumented Expenditures			<u>\$ 2,049</u>
Total Undocumented Expenditures			<u><u>\$ 2,409</u></u>

SEWICKLEY TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

Without adequate supporting documentation, such as invoices, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, good business practices dictate that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: While notified of this condition during our prior audit, relief association officials, again, 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 detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We, again, recommend the relief association provide this department with adequate supporting documentation, such as invoices, to determine the validity of the expenditures or that the relief association be reimbursed \$2,409 for the undocumented expenditures. 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.

SEWICKLEY TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Minutes of Meetings

Condition: As cited in our prior audit report, the relief association failed to maintain minutes of meetings as required by Act 118. While the relief association's bylaws call for monthly meetings, the relief association only maintained minutes for five out of the thirty-six meetings held during the audit period. Furthermore, the minutes that were available were incomplete as they failed to detail the number of members present; therefore, we could not determine whether the quorum requirements of the relief association's bylaws were met. Finally, the relief association's available minutes did not address all of the financial-related transactions that occurred during the audit period.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

. . . must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

Article II, Section 1, of the relief association's bylaws states:

Regular monthly meetings of this association shall be held on the first Wednesday of each month immediately following the regular meeting of the Lower Volunteer Fire Company. Ten members shall constitute a quorum.

Cause: Even though notified of this condition during our prior audit, relief association officials, again, neglected to maintain minutes of meetings as required by Act 118.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We, again, recommend relief association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should evidence that quorum requirements of the relief association's bylaws were met and 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.

SEWICKLEY TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Unauthorized Expenditures

Condition: During our prior audit, we verbally cited the relief association for an unauthorized expenditure. During the current audit period, we found the relief association, again, expended funds for items that were not authorized by Act 118.

Prior Audit Period Unauthorized Expenditure:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
09/22/08	427	Beer mugs and shipping	\$ 286
Total Prior Audit Unauthorized Expenditure			\$ 286

Current Audit Period Unauthorized Expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
09/29/09	448	Equipment for fire company vehicle	\$ 112
12/21/09	459	Relief association member's rent	2,250
01/05/10	461	Notary fees for fire company vehicle	109
01/20/10	465	Repairs to fire company vehicle	125
01/20/10	466	Repairs to fire company vehicle	195
01/20/10	468	Repairs to fire company vehicle	289
01/21/10	469	Lights for fire company vehicle	20
02/12/10	471	Lights for fire company vehicle	271
02/25/10	472	Repairs to fire company vehicle	172
03/10/10	476	Inspection for fire company vehicle	55
12/08/10	495	Embroidered shirts and hats	552
Total Current Audit Unauthorized Expenditures			\$ 4,150
Total Unauthorized Expenditures			\$ 4,436

SEWICKLEY TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(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 the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

Costs incurred to purchase equipment, to repair fire company owned vehicles, to pay a relief association member's rent, and to purchase items not related to relief association duties do not qualify as authorized expenditures under Act 118.

Cause: Relief association officials failed to comply with the prior audit period verbal cite and were not aware that the expenditures cited for the current audit period were not authorized by Act 118.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118.

However, on January 11, 2011, the relief association received reimbursement, totaling \$3,971, from the Lowber Volunteer Fire Company.

Recommendation: We recommend the relief association be reimbursed \$465 for the remaining balance of unauthorized expenditures. Furthermore, we, again, recommend that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) 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.

SEWICKLEY TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Renew Sales Tax Exemption

Condition: The relief association's Pennsylvania sales tax exemption expired on December 31, 2008 and was not renewed. During the audit period, the relief association paid \$440 in Pennsylvania sales tax to eleven different vendors from which the relief association purchased equipment and services.

Criteria: Act 118 at 35 Pa.C.S. 7415(e) states:

A volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

Cause: Relief association officials failed to renew the relief association's sales tax exemption.

Effect: As a result of the relief association's failure to renew its sales tax exemption, its sales tax exemption number could not be provided to all vendors from whom the relief association purchased goods and services, resulting in the relief association paying Pennsylvania sales tax on its purchases; payment of sales tax reduces the funds that would otherwise be available to pay for general operating expenditures and for investment purposes.

Recommendation: We recommend that the relief association renew its Pennsylvania sales tax exemption and furnish its state sales tax exemption number to all vendors with whom the relief association purchases equipment and services. We further recommend that relief association officials stay aware of the sales tax exemption expiration dates so that, prior to expiration, the sales tax exemption can be renewed. 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.

SEWICKLEY TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions of repeat findings, such as those reported in Finding Nos. 1 and 2, may lead to a total withholding of state aid in the future unless the findings are corrected. Furthermore, a condition such as that reported in Finding No. 3 may lead to a total withholding of state aid in the future unless the finding is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

SEWICKLEY TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2011

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	\$ 2,918
Total Benefit Services	\$ 2,918
Fire Services:	
Equipment purchased	\$ 20,423
Equipment maintenance	9,950
Training expenses	950
Total Fire Services	\$ 31,323
Administrative Services:	
Miscellaneous administrative expenses	\$ 4,335
Total Administrative Services	\$ 4,335



SEWICKLEY TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Sewickley Township No. 2 Volunteer Firefighters' Relief Association Governing Body:

Mr. Nick Sewchok, President

Mr. Daniel Augustine, Vice President

Ms. Sheryl Olson, Secretary

Ms. Kimberly Nicholls, Treasurer

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

Ms. Susan Leukhardt, Secretary
Sewickley 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.