



THE SHERMANS DALE COMMUNITY FIRE COMPANY RELIEF ASSOCIATION

PERRY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008 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 Shermans Dale Community Fire Company Relief Association, herein referred to as Shermans Dale 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 Shermans Dale Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>
Middlesex Township	Cumberland	\$ 8,728	\$ 7,765
Carroll Township	Perry	\$30,254	\$27,156
Rye Township	Perry	\$ 8,260	\$ 7,400

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

Shermans Dale Community Fire Company

Mr. Timothy Wilson, President
SHERMANS DALE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Perry County

We have conducted a compliance audit of the Shermans Dale 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, 2008 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 Shermans Dale 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 Shermans Dale Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Shermans Dale 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, 2008 to December 31, 2009, found the Shermans Dale Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the findings contained in our prior audit report. However, the Shermans Dale 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, in all significant respects, the Shermans Dale Volunteer Firefighters' Relief Association 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 in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Shermans Dale Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$24,465 and an investment balance with a fair value of \$151,888.

Finding No. 1 – Noncompliance with Prior Audit Recommendation –
Inadequate Relief Association Bylaws

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

Finding No. 3 – Unauthorized Expenditures

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

May 14, 2010

JACK WAGNER
Auditor General

SHERMANS DALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Inappropriate Presigning of Blank Checks

By prohibiting the presigning of blank checks.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Shermans Dale Volunteer Firefighters' Relief Association has not complied with two of the three 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 –
Inadequate Relief Association Bylaws

- Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

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

SHERMANS DALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No.1 – Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

Condition: As cited in our prior audit report, the existing bylaws of the Shermans Dale Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not address the requirements for the approval and payment of expenditures, and the investment of funds and sale of investments. In addition, the bylaws in their current form only include the requirement for an annual relief association meeting.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(6) states, that the relief association's bylaws shall:

- (6) Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.

In addition, prudent business practice dictates that the bylaws contain provisions for meetings to be held on a monthly basis.

Cause: While notified of this condition during our prior audit, relief association officials failed to amend the relief association bylaws to meet the bylaw provisions required by Act 118.

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 again recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 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 Response: Relief association management agreed with the finding as presented at the exit conference and indicated they will take action to comply with the recommendation.

SHERMANS DALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

Condition: As cited in our prior audit report, the relief association failed to maintain detailed minutes of meetings as required by Act 118. During the current audit period, the relief association only provided copies of minutes for two meetings; and these minutes did not address all of the financial-related transactions which occurred during the audit period. As such, we could not determine if all association business was presented for the membership's approval. In addition, the minutes provided to the auditor were not signed by the recording officer.

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

. . . must provide for the taking and preserving of 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.

In addition, prudent business practice dictates that minutes of meetings be signed by the recording officer.

Cause: While notified of this condition during our prior audit, relief association officials failed to maintain detailed 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 the relief association maintain detailed minutes of meetings, evidencing the discussion and approval 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.

SHERMANS DALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/06/08	893	Salvage vacuum	\$ 1,319
10/16/09	979	Travel-related expenses for firefighters' memorial weekend	<u>463</u>
Total			<u>\$ 1,782</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(10 and 11) states:

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

- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.
- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters 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) has been established whereby the DCED provides interpretation of Act 118. DCED determined that the salvage vacuum is for the benefit of the public rather than the volunteer firefighters; and the memorial weekend included no training; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials were unaware that the aforementioned expenditures 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.

SHERMANS DALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend the relief association be reimbursed \$1,782 for the unauthorized expenditures and 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.

SHERMANS DALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2008 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	\$ 4,651
Death benefits	500
Relief benefits	360
Tokens of sympathy and goodwill	405
Total Benefit Services	\$ 5,916
Fire Services:	
Equipment purchased	\$ 55,456
Equipment maintenance	8,415
Training expenses	1,083
Fire prevention materials	439
Total Fire Services	\$ 65,393
Administrative Services:	
Miscellaneous administrative expenses	\$ 450
Total Administrative Services	\$ 450
Total Investments Purchased	\$ 300,000

SHERMANS DALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Shermans Dale Volunteer Firefighters' Relief Association Governing Body:

Mr. Timothy Wilson, President

Mr. Nathan Lowe, Vice President

Ms. Shelby Nelson, Secretary

Mr. John Fleisher, Treasurer

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

Ms. Eileen M. Gault, Secretary
Middlesex Township

Ms. Natalie Sieber, Secretary
Carroll Township

Ms. Daisy Lightner, Secretary
Rye 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.