



LEVITTOWN FIRE COMPANY NO. 2 RELIEF ASSOCIATION, INC.

HEREIN REFERRED TO AS:

LEVITTOWN NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

BUCKS 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 Levittown 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 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 Levittown No. 2 Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>
Bristol Township	Bucks	\$71,045	\$74,259

BACKGROUND (Continued)

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

Levittown Fire Company No. 2

Mr. Wayne R. Bittle, President
LEVITTOWN NO. 2 VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Bucks County

We have conducted a compliance audit of the Levittown 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, 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 to December 31, 2007. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

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 Levittown No. 2 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 Levittown No. 2 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 Levittown No. 2 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 Levittown No. 2 Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$152,431 and an investment balance with a fair value of \$141,119.

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 – Improper Loan

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

August 20, 2008

JACK WAGNER
Auditor General

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

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Levittown No. 2 Volunteer Firefighters' Relief Association has partially complied with the following prior audit finding and recommendation:

- Inadequate Signatory Authority for the Disbursement of Funds

By requiring more than one signature on all negotiable instruments.

However, during the current audit period, the relief association executed a loan agreement with the signature of only one officer of the relief association although two are required. This is discussed in detail in Finding No. 3 contained in the Findings and Recommendations section of this report.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Levittown No. 2 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 previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

LEVITTOWN NO. 2 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 two audit reports, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While a listing of relief association owned equipment was provided during the current audit, it was again incomplete. Specifically, the list of equipment that was provided during the current audit did not contain dates of purchase, unit costs, or serial numbers, where available, to accurately identify the equipment owned. As such, it was impossible to determine if all items purchased during the current financial period had been accurately recorded.

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.

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 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.

LEVITTOWN NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: Relief association management agreed with the finding and indicated they will take action to comply with the recommendation.

LEVITTOWN NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditure

Condition: The relief association expended \$1,600 on November 6, 2007, for a backhoe operator to do land clearing and excavation on property owned by the fire company.

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.

Since 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 type of expenditure stated in the condition above has been determined by DCED to not qualify under Act 84.

Cause: Relief association officials were unaware that the expenditure for the backhoe operator to do land clearing and excavation on property owned by the fire company 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.

Recommendation: We recommend the relief association be reimbursed \$1,600 for the unauthorized expenditure and 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 as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

LEVITTOWN NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Improper Loan

Condition: On May 2, 2006, the relief association made an unsecured loan in the amount of \$19,649 to the Levittown Fire Company No. 2. While the written loan agreement specified a vehicle pledged as collateral, the relief association was not recorded on the title of the vehicle as lienholder to adequately secure the investment. We also noted that the written loan agreement provided was only signed by one officer of the relief association although the signatures of at least two officers are required. If a second signature had been required, perhaps the officer who provided the second signature would have recognized that the loan was unsecured and taken action to ensure that the relief association was recorded on the title of the vehicle and that the loan was secured.

Furthermore, the relief association did not receive its \$4,201 loan payments, which are due on August 1 annually. The 2006 payment was never received. The 2007 payment was received on October 11, 2007; however, it was underpaid by \$475. As of December 31, 2007, the fire company is in arrears \$4,676.

Criteria: Act 84 at 53 P.S. § 8506(c)(3) states, in part:

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

In any obligation of an incorporated fire company which obligation is secured by assets of the [fire] company having capital value equal to at least one hundred fifty percent of the amount of the obligation at the time it is made, and is subject to provisions which will amortize such loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least equal to one hundred fifty percent of the balance remaining due.

In addition, Act 84 at 53 P.S. § 8505(3) states, in part

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

The terms of the written loan agreement state that payments of \$4,201 will be due on an annual basis, beginning on August 1, 2006.

LEVITTOWN NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Relief association officials were unaware that the collateral pledged for the loan was not properly secured. Relief association officials also were unaware that two signatures on the loan agreement were required. In addition, the relief association failed to establish internal control procedures to ensure that all loan payments due are timely collected and timely deposited into a relief association account.

Effect: Failure to obtain adequate security for the loan and timely collect the installments due places the investment at greater risk. Also, because the relief association did not receive the scheduled loan payments, funds were unavailable for general operating expenses or for investment purposes.

In addition, the absence of a second signature on the loan agreement prevented another officer from reviewing and evaluating the propriety of the loan agreement.

Recommendation: We recommend the relief association immediately amend the written loan agreement with Levittown Fire Company No. 2 to provide adequate security for the relief association's investment, as required by Act 84 at 53 P.S. § 8506 (c)(3), including having the relief association's name recorded on the title of the vehicle as lienholder to adequately secure the investment. If such action is not taken, we recommend that the loan be immediately liquidated. We also recommend that all future payments due be timely collected and deposited into a relief association account. We further recommend the relief association officials adopt procedures which would require the signatures of at least two officers on all relief association contracts or negotiable instruments, as defined by Act 84. 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.

LEVITTOWN NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2007

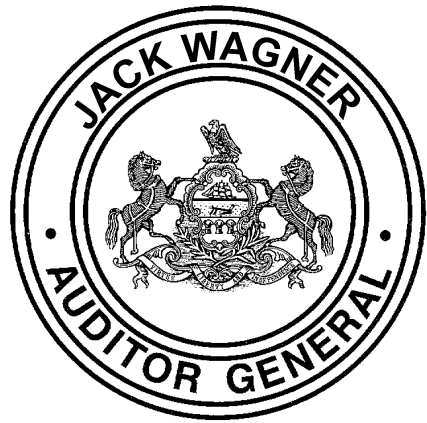
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 40,950
Relief benefits	7,432
Total Benefit Services	\$ 48,382
Fire Services:	
Equipment purchased	\$ 55,187
Equipment maintenance	13,715
Training expenses	2,996
Total Fire Services	\$ 71,898
Administrative Services:	
Miscellaneous administrative expenses	\$ 999
Total Administrative Services	\$ 999
Total Investments Purchased	\$ 19,649



LEVITTOWN NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Levittown No. 2 Volunteer Firefighters' Relief Association Officers:

Mr. Wayne R. Bittle, President

Ms. Melissa Haxel, Secretary

Mr. Robert F. Picciotti, Treasurer

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

Ms. Denise Gorry, Secretary
Bristol 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.