



MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

TIOGA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005 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 Middlebury 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 Middlebury 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>
Charleston Township	Tioga	\$5,925	\$5,991	\$6,077
Delmar Township	Tioga	\$2,000	\$2,000	\$2,000
Middlebury Township	Tioga	\$7,554	\$7,600	\$7,645

BACKGROUND (Continued)

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

Middlebury Township Volunteer Fire Department, Inc.

Mr. Scott Perry, President
MIDDLEBURY TOWNSHIP VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Tioga County

We have conducted a compliance audit of the Middlebury 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, 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 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 Middlebury 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 Middlebury Township 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, 2005 to December 31, 2007, found, in all significant respects, the Middlebury Township 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 Middlebury Township Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$29,664 and an investment balance with a fair value of \$6,000.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meeting

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 3 – Undocumented Loans

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

November 20, 2008

JACK WAGNER
Auditor General

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Insufficient Officer's Bond Coverage

By increasing the officer's bond coverage to an amount greater than the balance of cash assets.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Noncompliance With Prior Audit Recommendation – Inadequate Minutes of Meetings
- 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.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

Condition: As cited in the prior audit report, the relief association failed to maintain detailed minutes of all meetings as required by Act 84. Specifically, the relief association's minutes for 2007 were not provided for examination during the audit engagement.

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: While notified of this condition in the prior audit report, the relief association officials again neglected to maintain detailed minutes of all association meetings as required by Act 84.

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

Recommendation: We again recommend the relief association maintain minutes of all association meetings, which includes the details of the 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.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the prior audit report, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While the relief association previously maintained an equipment roster, it has not been updated to include the equipment items purchased during the prior audit period nor the current audit period. In addition, 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 audit report, 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**.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Undocumented Loans

Condition: On November 10, 2005; October 16, 2006; and February 12, 2007, the relief association made loans to the Middlebury Township Volunteer Fire Department in the amounts of \$9,300, \$7,000 and \$14,000, respectively, without formal written loan agreements. During the audit period, the relief association received \$24,300 in loan payments from the fire department, leaving a remaining balance of \$6,000 plus interest as of December 31, 2007.

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, good business practice requires such terms of the obligation be placed into a written loan agreement.

Cause: Relief association officials were unaware that the loans to the fire department must be documented to ensure compliance with Act 84 provisions.

Effect: Failure to adequately document loans through a formal written agreement places the investments at greater risk.

Recommendation: We recommend the relief association and fire department prepare a formal written loan agreement for the remaining \$6,000. The agreement should be signed by both parties, and specify the payment schedule and the interest rate. The loan agreement must also specifically identify the collateral to protect the investment as required by Act 84 at 53 P.S. § 8506(c)(3). If such action is not taken, we recommend that the loan be immediately liquidated. 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.

MIDDLEBURY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 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	\$ 9,927
Total Benefit Services	\$ 9,927
Fire Services:	
Equipment purchased	\$ 7,049
Equipment maintenance	4,582
Training expenses	8,757
Total Fire Services	\$ 20,388
Administrative Services:	
Miscellaneous administrative expenses	\$ 51
Total Administrative Services	\$ 51
Total Investments Purchased	\$ 30,300

MIDDLEBURY 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

Middlebury Township Volunteer Firefighters' Relief Association Officers:

Mr. Scott Perry, President

Mr. Carl J. Butler, Secretary

Mr. Gary Cooper II, Treasurer

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

Ms. Patricia A. Reese, Secretary
Charleston Township

Ms. Shirley W. Borden, Secretary
Delmar Township

Ms. Julie A. Owlett
Middlebury 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.