



NELSON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

NELSON 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 Nelson 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.

BACKGROUND (Continued)

The Nelson 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>
Farmington Township	Tioga	\$1,691	\$1,721	\$1,776
Lawrence Township	Tioga	\$1,017	\$1,023*	\$1,028
Nelson Township	Tioga	\$2,973	\$2,994	\$3,041

* The 2006 state aid allocation from Lawrence Township was not deposited into a relief association account until March 5, 2007. See additional details in Finding No. 2.

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

Nelson Volunteer Fire Department

Mr. Matthew Finch, President
NELSON VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Tioga County

We have conducted a compliance audit of the Nelson 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 Nelson 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 Nelson Volunteer Firefighters' Relief Association's cash balance as of December 31, 2007, with the custodian 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 Nelson 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 Nelson Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$10,492 and no investments.

Finding No. 1 – Insufficient Officer's Bond Coverage

Finding No. 2 – Untimely Deposit of State Aid

Finding No. 3 – Failure to Segregate Relief Association Officers' Duties

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

October 22, 2008

JACK WAGNER
Auditor General

NELSON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Nelson Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Failure to Obtain a Pennsylvania Sales Tax Exemption Number

By obtaining a state tax sales exemption number and furnishing this number to all vendors from which the relief association purchases equipment.

- Failure to Maintain Minutes of Meetings

By beginning to maintain detailed minutes of association meetings.

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative roster of all equipment owned by the association.

- Insufficient Documentation of Loan to the Relief Association and Untimely Bank Loan Payments

By liquidating the loan from the bank and by not incurring any additional loans during the current audit period.

- Failure to Obtain a Federal Tax Identification Number

By obtaining a new federal tax identification number from the Internal Revenue Service.

- Undocumented Expenditures

By receiving reimbursement in the amount of \$179 for the undocumented expenditures made in the prior audit period and by ensuring that adequate documentation was maintained for all current period expenditures.

NELSON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Insufficient Officer's Bond Coverage

Condition: The relief association did not maintain a bond in a sufficient amount to cover the authorized disbursing officer. The relief association's bond coverage was \$10,000; however, as of December 31, 2007, the cash assets totaled \$10,492.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary, or otherwise, shall be bonded by corporate surety for the faithful performance of his duties. The amount of such bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on such bond shall be a proper charge against the funds of the association.

Cause: Relief association officials failed to monitor the cash balance to ensure the officer's bond coverage was in compliance with Act 84 provisions.

Effect: As a result of the disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend the relief association ensure that a faithful performance bond adequately covers the disbursing officer as required by Act 84. This requirement may be accomplished by increasing the officer's bond coverage to an amount greater than the expected maximum balance of cash assets, or by decreasing the cash assets to an amount anticipated to remain below the coverage amount. Relief association officials should monitor the cash balance to ensure that unexpected events affecting current funds do not again result in an insufficient officer's bond coverage. 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.

NELSON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Untimely Deposit of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2006 state aid allocation it received from Lawrence Township, in the amount of \$1,023, until March 5, 2007.

Criteria: The foreign fire insurance tax allocation was distributed to the municipal treasurer, who forwarded this state aid to the volunteer firefighters' relief association on October 2, 2006, which is within the 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Upon receipt of the state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

Cause: The relief association failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner. According to the relief association treasurer, the state aid check was not timely deposited because the check was misplaced.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts can lead to a greater risk that funds could be lost or misappropriated.

Recommendation: We recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all future state aid allocations. 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.

NELSON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Segregate Relief Association Officers' Duties

Condition: During the current audit, we detected that the same individual holds the position of both secretary and treasurer.

Criteria: Prudent business practice dictates that the duties of the secretary and treasurer be sufficiently segregated. Segregation of duties is the primary internal control intended to prevent or decrease the risk of errors or irregularities.

The minimum requirements of the secretary's position, pertaining to a relief association, are to maintain detailed minutes of meetings authorizing the relief association's financial operations. The secretary should review and coordinate the amending of the bylaws governing the relief association so that the bylaws meet the minimum requirements of Act 84.

The minimum requirements of the treasurer's position, pertaining to a relief association, are to maintain an account of all funds belonging to the relief association. The treasurer shall maintain a journal and ledger detailing all financial transactions of the relief association along with documentation supporting the receipts and disbursements. The treasurer should co-sign all negotiable instruments along with another relief association officer. Also, financial statements should be prepared at least on an annual basis by the treasurer.

Cause: Relief association officials were unaware that one person holding the position of both secretary and treasurer negates the internal controls associated with the segregation of duties.

Effect: An inadequate segregation of duties could prevent relief association officials and members from effectively monitoring the relief association's financial transactions. Additionally, it negates the checks and balances necessary to detect and correct financial errors or irregularities in the relief association's accounting system.

Recommendation: We recommend the relief association ensure that there is adequate segregation of duties between the relief association's secretary and treasurer. We also recommend that the relief association review its accounting and internal control procedures to ensure that the duties being performed by the secretary and treasurer are sufficiently segregated so that relief association assets are adequately safeguarded. 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.

NELSON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2007

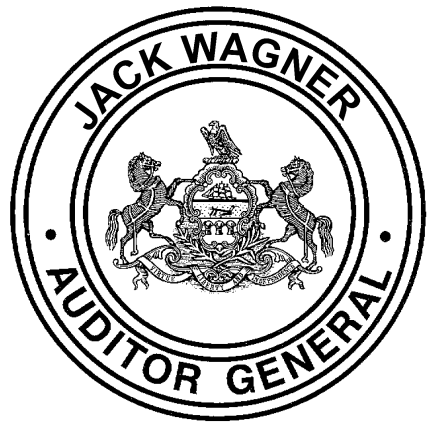
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 344
Total Benefit Services	\$ 344
Fire Services:	
Equipment purchased	\$ 4,894
Equipment maintenance	1,303
Training expenses	15
Total Fire Services	\$ 6,212
Administrative Services:	
Bank service fees	\$ 50
Total Administrative Services	\$ 50
Other Expenditures:	
Principal payments on loan	\$ 5,752
Interest payments on loan	622
Total Other Expenditures	\$ 6,374



NELSON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Nelson Volunteer Firefighters' Relief Association Officers:

Mr. Matthew Finch, President

Mr. Keith McLean, Secretary/Treasurer

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

Ms. Sharel A. Johnson, Secretary
Farmington Township

Ms. Susan G. Williams, Secretary
Lawrence Township

Ms. Penny Jeffers, Secretary
Nelson 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.