



SOUTH FAYETTE TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

**SOUTH FAYETTE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF
ASSOCIATION**

ALLEGHENY COUNTY

AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2003 TO DECEMBER 31, 2005



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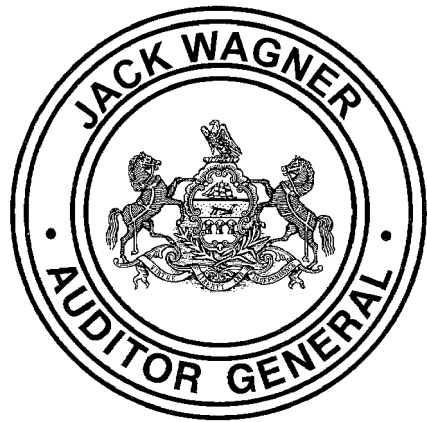
BACKGROUND

This audit report is a public record, which must be available for examination by all interested citizens and volunteer firefighters' relief association (VFRA) members.

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.

This department conducts its audits of volunteer firefighters' relief associations in accordance with generally accepted auditing standards. Representations contained in the accompanying financial statements are the responsibility of the relief association's management. This department's responsibility for those statements is confined solely to an expression of our opinion as to the fairness of management's representation of the financial statements taken as a whole.

Act 84 requires that the relief association be governed in accordance with bylaws, which establish the association's operating procedures. Act 84 provides that the primary purpose of a relief association is to afford financial protection to volunteer firefighters against misfortunes suffered during fire service participation. To fulfill this purpose, Act 84 authorizes specific types of expenditures and outlines appropriate 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.



Independent Auditor's Report

Mr. Stanley Underwood, President
SOUTH FAYETTE TOWNSHIP VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Allegheny County

We have audited the accompanying Statement of Monetary Assets Arising From Cash Transactions as of December 31, 2005, and the related Statement of Cash Receipts, Disbursements, and Changes in Cash of the South Fayette Township Volunteer Firefighters' Relief Association for the period January 1, 2003 to December 31, 2005. These financial statements are the responsibility of the relief association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Department of the Auditor General is mandated by state statute to calculate state aid provided to volunteer firefighters' relief associations and to audit volunteer firefighters' relief associations having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Independent Auditor's Report (Continued)

As described in Note 2, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the monetary assets arising from cash transactions of the South Fayette Township Volunteer Firefighters' Relief Association as of December 31, 2005, and the cash receipts, disbursements, and changes in cash for the period January 1, 2003 to December 31, 2005, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2006, on our consideration of the South Fayette Township Volunteer Firefighters' Relief Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

February 27, 2006

JACK WAGNER
Auditor General

SOUTH FAYETTE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATEMENT OF MONETARY ASSETS ARISING FROM CASH TRANSACTIONS
DECEMBER 31, 2005

ASSETS:

Cash (note 3)	\$ 21,967
Investments (note 4)	<u>5,200</u>
Total Monetary Assets	<u>\$ 27,167</u>

Notes to financial statements are an integral part of this report.

SOUTH FAYETTE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
 FOR THE PERIOD JANUARY 1, 2003 TO DECEMBER 31, 2005

RECEIPTS:

Support:		
State aid (note 5)	\$	61,590
Other Receipts:		
Interest income		<u>796</u>
Total Receipts		<u>62,386</u>

DISBURSEMENTS:

Fire Services:		
Equipment purchased		36,951
Equipment maintenance		3,118
Benefit Services:		
Insurance premiums		17,226
Administrative Services:		
Office equipment and supplies		233
Bank service fees		<u>10</u>
Total Disbursements		<u>57,538</u>
Net Increase or (Decrease) In Cash		4,848
Cash Balance, January 1		<u>17,119</u>
Cash Balance, December 31	\$	<u><u>21,967</u></u>

Notes to financial statements are an integral part of this report.

SOUTH FAYETTE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION

Pursuant to the Act of June 11, 1968, (P.L. 149, No. 84), as amended, the South Fayette Township Volunteer Firefighters' Relief Association is a charitable organization that was formed to afford financial protection to volunteer firefighters and to encourage individuals within the community to participate in volunteer fire service.

Act 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws regulate the specific procedures by which the association assets are managed.

The South Fayette Township Volunteer Firefighters' Relief Association is affiliated with the South Fayette Township Volunteer Fire Department.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The relief association's records are maintained on a cash basis, and the statement of cash receipts and disbursements reflect only cash received and disbursed. Therefore, receivables and payables, long-lived assets, accrued income and expenses, and depreciation, which would otherwise be recognized under accounting principles generally accepted in the United States of America (GAAP) and which may be material in amount, are not recognized in the accompanying financial statements.
- B. Fixed assets are recognized as expenditures at the time of purchase, rather than being capitalized and depreciated over their estimated useful lives.
- C. The relief association did not adopt Statement of Financial Accounting Standard (SFAS) No. 117 since they do not follow GAAP.
- D. The nature of the relief association's monetary assets is considered to be unrestricted.
- E. All investments of the relief association are carried at their original cost to the association, rather than the fair value.

3. CASH

Cash consisted of the following at December 31, 2005:

Checking account	\$ 21,967
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Total Cash	\$ 21,967
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SOUTH FAYETTE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. INVESTMENTS

The investments held by the relief association as of December 31, 2005, consisted of the following:

	Cost	Fair Value
Certificate of deposit	\$ 5,200	\$ 5,200
Total Investments	\$ 5,200	\$ 5,200

5. STATE AID

Chapter 7 of the Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 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 relief association of the fire department or departments, which is or are recognized as providing service to the municipality.

During the years 2003, 2004, and 2005, the South Fayette Township Volunteer Firefighters' Relief Association received state aid from South Fayette Township in Allegheny County.

6. RELATED PARTY SITUATIONS

A related party situation exists because the volunteer firefighters' relief association is affiliated with the fire service organization disclosed in Note 1. The relief association is a distinct separate legal entity that was established primarily for the purpose of affording financial protection to the volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service.

Another related party situation exists because all officers of the relief association hold the same offices in the fire service organization.

The relief association membership is aware of these situations and all transactions are approved by the relief association membership.

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

Mr. Stanley Underwood, President
SOUTH FAYETTE TOWNSHIP VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Allegheny County

We have audited the financial statements (cash basis) of the South Fayette Township Volunteer Firefighters' Relief Association as of December 31, 2005, and for the period January 1, 2003 to December 31, 2005, and have issued our report thereon dated February 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Department of the Auditor General is mandated by state statute to calculate state aid provided to volunteer firefighters' relief associations and to audit volunteer firefighters' relief associations having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Fayette Township Volunteer Firefighters' Relief Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards (Continued)**

financial reporting that, in our judgement, could adversely affect South Fayette Township Volunteer Firefighters' Relief Association's ability to record, process, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the following finding:

Finding No. 1 – Inappropriate Ownership of Assets

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by association officers in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described in Finding No. 1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Fayette Township Volunteer Firefighters' Relief Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the following findings:

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Failure to Obtain a Pennsylvania Sales Tax Exemption Number

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards (Continued)**

This report is intended solely for the information and use of the relief association's members and management, and the officials of the municipalities that grant the foreign fire insurance tax monies to the volunteer firefighters' relief association. It is not intended to be and should not be used by anyone other than these specified parties.

February 27, 2006

JACK WAGNER
Auditor General

SOUTH FAYETTE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inappropriate Ownership of Assets

Condition: As of December 31, 2005, the relief association's monetary assets were a certificate of deposit with a total cost value of \$5,200 and a checking account with a balance of \$21,967. These monetary assets were inappropriately registered under the fire company's federal tax identification number rather than the relief association's identification number.

Criteria: Sound business practice dictates that the relief association maintain ownership of all cash and investments as a means of safeguarding its assets from unauthorized use or disposition.

Cause: The relief association failed to establish adequate internal control procedures to ensure that all cash assets and all investments purchased were registered with the relief association's federal tax identification number.

Effect: As a result of the certificate of deposit and checking account being inappropriately registered under another entity's federal tax identification number, the association's monetary assets were not properly safeguarded.

However, subsequent to the period under review, on April 20, 2007, the relief association provided evidence that it had secured ownership rights to the certificate of deposit and checking account.

Recommendation: We recommend, that in the future, the relief association ensure that all cash accounts and investments are registered under the relief association's federal tax identification number. 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.

SOUTH FAYETTE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items, which are not authorized by Act 84:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
05/31/05	534	Fire company flood insurance premium	\$ 250
06/29/05	535	Building & property insurance premium, and Boiler/machinery insurance premium	3,900 <u>925</u>
Total			\$ <u>5,075</u>

Criteria: Act 84 at 53 P.S. § 8506(e)(2 and 8) states:

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

- (2) To purchase contracts of insurance which shall at the least afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and which may also provide in the order named, (i) for payments to the widow or other dependents of a member in the event of his death, (ii) for protection of active firefighters against disease, (iii) for the replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches, and the like, where such devices have been lost or damaged while the owner was engaged in the fire service or where the need for such devices arises because of functional impairment attributable to participation in the fire service, (iv) for the repair or replacement if necessary of articles of clothing or pocket pagers damaged in the course of participation in the fire service, and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

- (8) To contribute or to purchase contracts of insurance which will contribute towards the costs of rehabilitating and retraining volunteer firefighters who by reason of their participation in the fire service have suffered a major impairment of their ability to continue their vocation.

The primary purpose of the above insurance was for the protection of fire company property, not the volunteer firefighters or the relief association's assets; consequently, the premiums are not considered authorized expenditures as defined by Act 84.

SOUTH FAYETTE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials were unaware that the aforementioned insurance premiums were not authorized by Act 84.

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 84.

However, subsequent to the period under review, on March 1, 2006, the relief association was reimbursed \$5,075 for the unauthorized expenditures.

Recommendation: We recommend the 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.

SOUTH FAYETTE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Obtain a Pennsylvania Sales Tax Exemption Number

Condition: As cited in the prior audit report, the relief association failed to obtain a Pennsylvania sales tax exemption number. The relief association is currently using the fire service organization's sales tax exemption number, although the fire service organization and the relief association are separate legal entities.

Criteria: Act 84 at 53 P.S. 8505(e) states:

Any 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: While notified of this condition in the prior audit report, the relief association neglected to obtain its own sales tax exemption number from the Department of Revenue.

Effect: As a result of the relief association's failure to obtain a sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on its purchases, which ultimately reduces the funds otherwise available for general operating expenditures or for investment purposes.

However, subsequent to the period under review, on May 28, 2006, the relief association was issued a state sales tax exemption number from the Department of Revenue.

Recommendation: We recommend the relief association ensure they furnish this exemption number to all vendors from whom the relief association purchases equipment. 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.

SOUTH FAYETTE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
COMMENTS

PRIOR AUDIT RECOMMENDATIONS

The relief association has complied with the following prior audit recommendations:

- Inadequate Relief Association Bylaws

By revising the relief association bylaws to meet the minimum requirements of Act 84.

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative listing of all equipment owned.

SOUTH FAYETTE 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

South Fayette Township Volunteer Firefighters' Relief Association Officers:

Mr. Stanley Underwood, President

Mr. Thomas Cross, Secretary

Mr. Donald Vezzi, Treasurer

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

Ms. Claudia A. Smelko, Secretary
South Fayette 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.