

SOUTH WAVERLY FIREFIGHTERS' RELIEF ASSOCIATION

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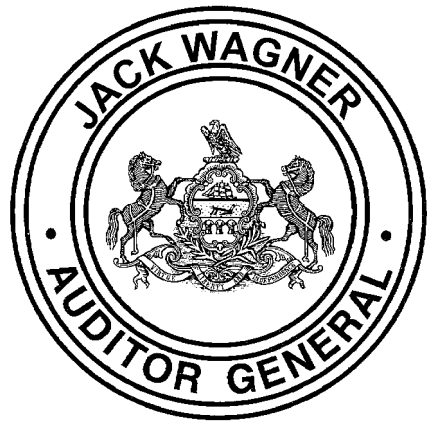
SOUTH WAVERLY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

BRADFORD COUNTY

COMPLIANCE AUDIT REPORT

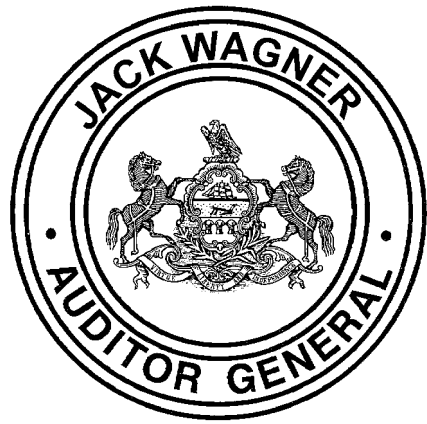
FOR THE PERIOD

JANUARY 1, 2003 TO DECEMBER 31, 2006



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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 South Waverly 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 South Waverly Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
South Waverly Borough	Bradford	\$5,401	\$5,278	\$6,188	\$6,268

BACKGROUND (Continued)

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

South Waverly Volunteer Fire Company

Mr. Joseph Willer, President
SOUTH WAVERLY VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Bradford County

We have conducted a compliance audit of the South Waverly 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, 2003 to December 31, 2006. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

The objective of the audit was 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 objective identified above.

The Department of the Auditor General (Department) 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. An administrative unit of the Department's Comptroller's Office that is not involved in the audit process calculates state aid 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*.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the South Waverly 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 objective. We also tested transactions, confirmed the South Waverly Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2006, with the custodians of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objective.

The results of our audit found that for the period January 1, 2003 to December 31, 2006, the South Waverly Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2006, had a cash balance of \$5,684 and an investment balance with a fair value of \$5,000. Additionally, the results of our tests indicated that, in all significant respects, the South Waverly Volunteer Firefighters' Relief Association received and expended state aid and accumulated relief association funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report:

- Finding No. 1 – Undocumented Expenditures
- Finding No. 2 – Unauthorized Expenditures
- Finding No. 3 – Inadequate Internal Controls
- Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster

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

March 8, 2007

JACK WAGNER
Auditor General

SOUTH WAVERLY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
07/11/03	1068	\$ 111
01/07/04	1071	45
04/07/04	1076	475
11/11/04	1078	32
	Total	<u>\$ 663</u>

Criteria: Act 84 at 53 P.S. § 8507(a) states, in part:

The Department of the Auditor General shall have the power, and its duty shall be, to audit the accounts and records of every volunteer firefighters' relief association receiving any money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No 205), known as the "Municipal Pension Plan Funding Standard and Recovery Act," as amended, as far as may be necessary to satisfy the department that the money received was expended or is being expended for no purpose other than that authorized by this act.

Without adequate supporting documentation, such as invoices, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices, made it impossible to determine if the expenditures were made in accordance with Act 84 at 53 P.S. § 8506(e).

However, subsequent to the period under review, on April 17, 2007, the relief association received partial reimbursement in the amount of \$552 for three of the four undocumented expenditures.

SOUTH WAVERLY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices, to determine the validity of the remaining undocumented expenditure or that the relief association be reimbursed \$111 for the undocumented expenditure. We also recommend that the relief association officials maintain supporting documentation for all 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 WAVERLY 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>
07/11/03	1068	Fire company insurance package	\$ 578
10/07/03	1069	Fire company insurance package	575
Total			<u>\$ 1,153</u>

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

While the relief association may expend funds for various types of insurance coverage, to be permissible under Act 84 the insurance must be for the benefit of the relief association or its members. Here, however, the fire company insurance package was for the benefit and protection of the fire company, not the relief association or its members; consequently, these expenditures are not authorized under Act 84.

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

SOUTH WAVERLY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 April 17, 2007, the relief association was reimbursed \$1,153 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 WAVERLY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Internal Controls and Record-Keeping

Condition: The relief association has failed to establish adequate internal controls and to maintain pertinent financial records. The following material internal control weaknesses existed during the period under review:

- Membership meetings were conducted infrequently.
- Detailed minutes of meetings were not maintained.
- Journals and ledgers were not maintained.
- Documentation to support various expenditures was not available at the time of the audit.
- Bank reconciliations were not performed.
- Financial-related activities were not presented, discussed, and approved at relief association meetings.
- Annual inventories of equipment owned were not performed.

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.

In addition, Article 3 of the relief association's bylaws states, in part:

- The Secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note authorization by the membership of all association financial transactions and all other pertinent business discussed at meetings.
- The treasurer shall not expend monies or enter into investment transactions without authorization of the membership. The treasurer shall keep a journal and ledger which details all financial transactions of the association and shall maintain all documentation supporting the receipts and disbursements made by the association.
- The treasurer is responsible for maintaining relief association financial records in a businesslike manner.

SOUTH WAVERLY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, prudent business practice dictates that:

- Meetings should be conducted monthly.
- Detailed meeting minutes should be maintained to accurately document relief association business.
- Monthly bank reconciliations should be performed.
- All purchases should be presented to the association membership for discussion and approval.
- Annual inventories should be conducted of equipment owned.

Cause: The relief association failed to establish adequate internal controls to ensure the propriety of expenditures and proper documentation of relief association transactions. The relief association officials were unaware of the relief association's ineffective internal control system.

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets and prevented the verification as to whether relief association business was presented before the membership for discussion and approval. Furthermore, the lack of effective internal controls places the relief association funds at greater risk for misappropriation.

Recommendation: We recommend the relief association officials adopt internal control procedures which will require the following:

- Monthly membership meetings.
- Maintenance of detailed meeting minutes.
- Documentation of all expenditures.
- Monthly bank reconciliations.
- Presentation, discussion, and approval of financial activities at relief association meetings.
- Annual inventories of equipment owned.

Furthermore, we recommend the relief association establish and maintain a financial record-keeping system that meets the minimum record-keeping requirements of this department.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION.

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 WAVERLY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While an equipment roster was maintained for equipment purchased in prior years dating back to the 1980's, it was incomplete since there was no equipment recorded since 2002. 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.
- Serial number, if applicable.
- Current location of item.
- Final disposition of sold or damaged equipment.
- Notation of the annual inventory.

Cause: Relief association officials failed 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 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.

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 WAVERLY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2003 TO DECEMBER 31, 2006

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	\$ 2,863
Total Benefit Services	<u>\$ 2,863</u>
Fire Services:	
Equipment purchased	\$ 13,104
Equipment maintenance	1,475
Training expenses	130
Total Fire Services	<u>\$ 14,709</u>
Total Investments Purchased	<u>\$ 5,000</u>
Other Expenditures:	
Undocumented expenditures	\$ 663
Total Other Expenditures:	<u>\$ 663</u>

SOUTH WAVERLY 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 Waverly Volunteer Firefighters' Relief Association Officers:

Mr. Joseph Willer, President

Ms. Marcia Chandler, Secretary

Mr. Keith Chapman, Treasurer

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

Ms. Valorie L. Huckabee, Secretary
South Waverly Borough

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.