



TIDIOUTE AREA VOLUNTEER FIREMAN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

TIDIOUTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

WARREN COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005 TO DECEMBER 31, 2008



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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 Tidioute 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 Tidioute 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> | <u>2008</u> |
|---------------------|---------------|-------------|-------------|-------------|-------------|
| Deerfield Township | Warren | \$ - * | \$2,782 | \$ - * | \$2,791 |
| Limestone Township | Warren | \$2,757 | \$2,765 | \$2,755 | \$2,827 |
| Tidioute Borough | Warren | \$3,591 | \$3,614 | \$3,601 | \$3,682 |
| Triumph Township | Warren | \$1,454 | \$1,456 | \$1,449 | \$1,470 |
| Watson Township | Warren | \$ 667 | \$ 676 | \$ 682 | \$ 705 |

* Deerfield Township in Warren County did not allocate any state aid to the Tidioute Volunteer Firefighters' Relief Association in 2005 and 2007.

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

Tidioute Area Volunteer Fire Department, Inc.

Mr. Mark Veasey, President
TIDIOUTE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Warren County

We have conducted a compliance audit of the Tidioute 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, 2008.

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 Tidioute 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 those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Tidioute Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Tidioute Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives.

The results of our audit for the period January 1, 2005 to December 31, 2008, found, in all significant respects, the Tidioute 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 Tidioute Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$10,788 and no investments.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Inadequate Relief Association Bylaws

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

July 7, 2009

JACK WAGNER
Auditor General

TIDIOUTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Tidioute 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 sales tax exemption number.

- Duplicate Payment Made on Insurance Premium

By receiving reimbursement from the affiliated fire department on April 25, 2005, in the amount of \$1,499, for the duplicate payment made in the prior audit period and by not making any duplicate payments during the current audit period.

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative roster of all equipment owned.

TIDIOUTE 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:

| Date | Check No. | Description | Amount |
|----------|-----------|--|-----------------|
| 12/15/06 | 147 | Payment to an individual for equipment | \$ 1,540 |
| 09/19/07 | 157 | Payment to an individual for equipment | 1,925 |
| Total | | | <u>\$ 3,465</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 audit period, on August 12, 2009, the relief association received reimbursement from the Tidioute Volunteer Fire Department, Inc., in the amount of \$3,465, for the above noted undocumented expenditures

Recommendation: We 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.

TIDIOUTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 –(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.

TIDIOUTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the Tidioute Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 84 at 53 P.S. § 8505(c). Specifically, the bylaws do not address:

- The voting rights of members. As currently written, the bylaws only extend voting rights to the board of governors to vote on expenditures.
- Procedures for the approval of expenditures, and for the investment of funds and the sale of investments.

In addition, the existing bylaws of the Tidioute Volunteer Firefighters' Relief Association improperly define the secretary and treasurer positions as one office.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that the relief association's bylaws shall include the following provisions:

- Specify the requirements of securing membership, **the voting rights of different classes of members**, if any, and the conditions under which membership may be terminated. (emphasis added)
- Establish procedures for the approval and payment of expenditures, and for the investment of funds and the sale of investments.

Furthermore, the relief association should establish internal control procedures to ensure that officers' duties are clearly defined and segregated. 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.

TIDIOUTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials were aware of the mandatory bylaw provisions established by Act 84 but were not aware that their bylaws did not sufficiently address the requirements.

In addition, relief association officials were aware that the positions should be segregated but did not perceive the formal segregation of these positions to be essential internal control in safeguarding relief association assets. As a result, they failed to formally segregate the offices of secretary and treasurer in the bylaws.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

Also, an inadequate segregation of duties could prevent relief association officials and members from effectively monitoring the relief association's financial transactions. Additionally, it eliminates the checks and balances necessary to detect and correct financial errors or irregularities in the relief association's accounting system. While the same individual did not hold both offices, we believe that the absence of formally defining the positions as two separate offices in the relief association's bylaws negates the relief association's awareness of operating procedures necessary to effectively safeguard relief association assets.

Recommendation: We recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 84 and properly authorize the operating procedures of the relief association. We also recommend that relief association officials amend the relief association bylaws so that the bylaws properly define and segregate the positions of secretary and treasurer. 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.

TIDIOUTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2008

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 | \$ 7,883 |
| Total Benefit Services | \$ 7,883 |
| | |
| Fire Services: | |
| Equipment purchased | \$ 29,583 |
| Training expenses | 903 |
| Total Fire Services | \$ 30,486 |
| | |
| Administrative Services: | |
| Miscellaneous administrative expenses | \$ 5 |
| Total Administrative Services | \$ 5 |
| | |
| Other Expenditures: | |
| Undocumented Expenditures | \$ 3,465 |
| Total Other Expenditures | \$ 3,465 |

TIDIOUTE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Tidioute Volunteer Firefighters' Relief Association Governing Body:

Mr. Mark Veasey, President

Mr. Paul Morrison, Vice President

Ms. Erin McManigle, Secretary

Mr. John Fulkman, Treasurer

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

Ms. Sandra Kick, Secretary
Deerfield Township

Ms. Jacqueline L. Edmiston, Secretary
Limestone Township

Ms. Crystal Heenan, Secretary
Tidioute Borough

Mr. Richard L. Brown, Secretary
Triumph Township

Ms. Sandra Kick, Secretary
Watson 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.