



TREVORTON FIRE COMPANY NO. 1 FIREFIGHTERS' RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

TREVORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

NORTHUMBERLAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 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 Trevorton 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 Trevorton Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>
Little Mahanoy Township	Northumberland	\$ 834	\$ 918
West Cameron Township	Northumberland	\$1,407	\$1,458
Zerbe Township	Northumberland	\$9,619	\$9,567

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

Trevorton Fire Company No. 1

Mr. Clair Houtz, President
TREVORTON VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Northumberland County

We have conducted a compliance audit of the Trevorton 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, 2006 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 finding 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 Trevorton 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 Trevorton Volunteer Firefighters' Relief Association's investment balance and the 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, 2006 to December 31, 2007, found, in all significant respects, the Trevorton Volunteer Firefighters' Relief Association did not receive and expend funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the following findings discussed later in this report. The results of our tests indicated the Trevorton Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$7,201 and an investment balance with a fair value of \$3,680.

Finding No. 1 – Misappropriation of Assets

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Untimely Deposit and Receipt of State Aid

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

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

March 31, 2008

JACK WAGNER
Auditor General

TREVORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Trevorton Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This issue is further discussed in the following finding noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Untimely Deposit and Receipt of State Aid

We are concerned with the volunteer firefighters' relief association's failure to correct the previously reported audit finding. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

TREVORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Misappropriation of Assets

Condition: During the audit period, the former relief association treasurer misappropriated \$31,850 from the relief association's monetary assets. A total of \$26,850 was transferred from the relief association's savings and checking accounts to a fire company account. An additional \$5,000 was transferred from a relief association certificate of deposit to a fire company account. The transfer of these relief association funds to the fire company account were executed without the approval or knowledge of the association membership. The treasurer then wrote checks to herself and other third parties from the fire company account.

On November 3, 2008, the former treasurer pled guilty to forgery and was sentenced to pay restitution of \$31,850.¹ She was also imprisoned for a period of 30 days to 23½ months beginning November 10, 2008.

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.

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

The treasurer shall keep account of all money belonging to the association and shall not spend monies or enter into investment transactions without authorization of the membership.

Furthermore, Article 5, Section 1, of the relief association bylaws states:

Funds of this association shall not be expended for any purpose other than those authorized by the provisions of Act 84 of 1968 and the association bylaws. All expenditures must be approved by a majority vote at an association meeting, duly recorded in the minutes, and countersigned by the president.

¹ The defendant was also sentenced to pay prosecution costs, a \$100 fine, and \$28,607 in restitution to the fire company for its misappropriated funds.

TREVORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Relief association officials failed to establish adequate internal control procedures to prevent the unauthorized transfer of funds. The relief association was unaware of its ineffective internal control system.

Effect: The failure to establish adequate internal controls increased the likelihood for misappropriated assets and, therefore, relief association funds were not available for authorized purposes.

However, subsequent to the audit period, on July 11, 2008, the relief association was reimbursed \$31,850 from their bonding company.

Recommendation: We recommend the relief association officials establish adequate internal control procedures to prevent the misappropriation of assets from occurring again in the future. The relief association should consider instituting a dual signature requirement for withdrawals and transfers. 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 presented at the audit exit conference and indicated they will take action to comply with the recommendation.

TREVORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Untimely Deposit and Receipt of State Aid

Condition: The volunteer firefighters' relief association did not timely deposit the following state aid allocations:

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2006	Little Mahanoy Township	\$ 834	10/03/06	01/04/07
2007	Little Mahanoy Township	918	11/05/07	01/17/08

In addition, the relief association did not timely receive the 2006 state aid, in the amount of \$1,407, from West Cameron Township. Specifically, the state aid was not distributed by the municipality until April 10, 2007, which was then deposited into a relief association account on April 19, 2007.

Criteria: The foreign fire insurance tax allocations were distributed to the municipal treasurers, who are required to forward this state aid to the volunteer firefighters' relief association within 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 allocations, the relief association should ensure the funds are deposited in a timely manner.

Cause: The relief association was unable to provide an explanation for the late deposit of the 2006 and 2007 state aid allocations from Little Mahanoy Township. As for the 2006 state aid from West Cameron Township, the township secretary stated she did not receive the original allocation check issued from our department and, thus, she could not forward the state aid to the relief association until she received a replacement check.

Effect: As a result of the untimely receipt and deposit of state aid checks, 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 and receipt of all income. 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.

TREVORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – 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 a roster was previously maintained, the relief association did not provide an updated listing, which includes the equipment purchased during the current audit period. As such, there was no indication that an 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: 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.

TREVORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 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	\$ 350
Total Benefit Services	\$ 350
Fire Services:	
Equipment purchased	\$ 32,092
Equipment maintenance	2,491
Training expenses	2,677
Total Fire Services	\$ 37,260
Administrative Services:	
Miscellaneous administrative expenses	\$ 150
Total Administrative Services	\$ 150
Other Expenditures:	
Misappropriation of assets (see Finding No. 1)	\$ 26,850
Total Other Expenditures	\$ 26,850

TREVORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Trevorton Volunteer Firefighters' Relief Association Officers:

Mr. Clair Houtz, President

Ms. Donna Reed, Secretary

Mr. James Morrison Jr., Treasurer

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

Ms. Lisa Williard, Secretary
Little Mahanoy Township

Ms. Missy Yeager, Secretary
West Cameron Township

Ms. M. Joan Miller, Secretary
Zerbe 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.