

**THE UPPER AUGUSTA VOLUNTEER FIRE CO. FIREMAN'S RELIEF
ASSOCIATION OF SUNBURY, R. D. 1, PENNSYLVANIA**

HEREIN REFERRED TO AS:

UPPER AUGUSTA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

NORTHUMBERLAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2004 TO DECEMBER 31, 2007



CONTENTS

Background.....	1
Letter From the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes of Meetings.....	6
Finding No. 2 – Related Party Situation.....	7
Finding No. 3 – Inappropriate Presigning of Blank Checks.....	8
Finding No. 4 – Undocumented Expenditure	9
Finding No. 5 – Failure to Receive State Aid.....	10
Accompanying Expenditure Information	11
Report Distribution List.....	13



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 Upper Augusta 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 Upper Augusta Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Rush Township	Northumberland	\$ 1,891	\$ 2,034	\$ 2,058	\$ 2,322
Upper Augusta Township	Northumberland	\$14,634	\$16,125	\$15,699	\$16,299

BACKGROUND (Continued)

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

Upper Augusta Volunteer Fire Company

Mr. Corey Herb, President
UPPER AUGUSTA VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Northumberland County

We have conducted a compliance audit of the Upper Augusta 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, 2004 to December 31, 2007. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

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 Upper Augusta 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 Upper Augusta Volunteer Firefighters' Relief Association's cash balance as of December 31, 2007, with the custodians 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, 2004 to December 31, 2007, found, in all significant respects, the Upper Augusta 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 Upper Augusta Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$16,342 and no investments

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

Finding No. 2 – Related Party Situation

Finding No. 3 – Inappropriate Presigning of Blank Checks

Finding No. 4 – Undocumented Expenditure

Finding No. 5 – Failure to Receive State Aid

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

January 30, 2008

JACK WAGNER
Auditor General

UPPER AUGUSTA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Upper Augusta 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 and furnishing this number to all vendors from which the relief association purchases equipment.

- Improper Equipment Transactions

By discontinuing the practice of purchasing equipment for resale to members of the relief association.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Upper Augusta 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 –
Inadequate Minutes of Meetings

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.

UPPER AUGUSTA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

Condition: As cited in the prior audit report, the relief association failed to maintain detailed minutes of meetings, as required by Act 84. Specifically, the relief association's minutes did not address all of the financial-related transactions, which occurred during the period under review.

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.

Cause: While notified of this condition in the prior audit report, relief association officials neglected to maintain detailed minutes of meetings as required by Act 84.

Effect: The failure to maintain detailed minutes of meetings prevented the verification as to whether all relief association business was presented before the membership for approval.

Recommendation: We again recommend the relief association maintain detailed minutes of meetings, including all financial-related business conducted by the relief association. 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.

UPPER AUGUSTA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Related Party Situation

Condition: Relief association officials failed to disclose a related party situation to the relief association membership. The relief association has a related party situation that exists because the relief association does business with a vendor that employs a relief association officer. During the current financial reporting period, the relief association purchased \$36,901 of equipment and equipment maintenance from this vendor.

A related party situation occurs when the relief association deals with a business that employs or is owned by a relief association officer or a member of an officer's immediate family. Such a situation may provide a financial benefit to the related party through a commission or a profit from a sale.

Criteria: All related party situations should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, the individual involved in the related party situation should abstain from all votes concerning his place of employment.

Cause: Relief association officials were unaware that related party situations should be disclosed to the membership.

Effect: Failure to properly disclose a related party situation may create a potential conflict of interest which could result in misleading or inappropriate financial statement presentation for the relief association.

Recommendation: We recommend the relief association officials take those actions necessary to eliminate the appearance of a conflict of interest. Actions should include, but are not limited to, a written notification to the relief association membership of each related party situation/transaction, and the abstention of the relief association official from decisions and voting rights which involve his business as a secretary. These actions should be documented in the relief association's minutes. Furthermore, the relief association should closely review all related party transactions to ensure that the cost of the services rendered by the firm is competitive.

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.

UPPER AUGUSTA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inappropriate Presigning of Blank Checks

Condition: A review of the relief association's checkbook revealed that four blank checks were presigned by one of the two relief association officials who are authorized to sign checks. The presigning of blank checks negates the relief association's internal control over the disbursement process.

Criteria: Checks should be signed and co-signed only after each authorized person has reviewed and approved the nature, purpose, and propriety of each expenditure.

Cause: The relief association failed to establish internal control procedures to prevent the presigning of blank checks.

Effect: The practice of presigning blank checks prevents the relief association from maintaining an adequate segregation of duties necessary to ensure the proper safeguarding of its assets.

Recommendation: We recommend that the practice of presigning blank checks be immediately discontinued. Furthermore, checks prepared for each expenditure should accompany the invoice and any other supporting documentation. This will enable each authorized official to review the nature, purpose, and propriety of each expenditure prior to signing the check. 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.

UPPER AUGUSTA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for a \$700 expenditure to an equipment vendor on February 14, 2005.

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 an invoice and detailed minutes of relief association meetings, made it impossible to determine the expenditure was made in accordance with Act 84 at 53 P.S. § 8506(e).

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as an invoice, to determine the validity of the expenditure or that the relief association be reimbursed \$700 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.

UPPER AUGUSTA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure to Receive State Aid

Condition: The relief association did not receive the 2007 state aid allocation from Rush Township, in the amount of \$2,322.

Criteria: The foreign fire insurance tax allocation was distributed to the municipal treasurer, who failed to distribute the state aid to the volunteer firefighters' relief association treasurer 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). The relief association should ensure the funds are received in a timely manner from the municipal secretary and deposited into a relief association account.

Cause: The relief association failed to establish internal control procedures to ensure that all state aid due to the municipality is received and deposited into a relief association account. According to the municipality, the Rush Township secretary was unaware of the requirement to distribute the state aid to the relief association within 60 days.

Effect: As a result of the state aid not being received and deposited, the relief association was unable to use the funds for general operating expenses or for investment purposes.

However, subsequent to the period under review, the 2007 state aid from Rush Township was mailed on January 29, 2008, and deposited into a relief association account on March 17, 2008.

Recommendation: We recommend the relief association establish accounting and internal control procedures to ensure that all state aid is received in a timely manner and deposited into a relief association account. 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.

UPPER AUGUSTA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2007

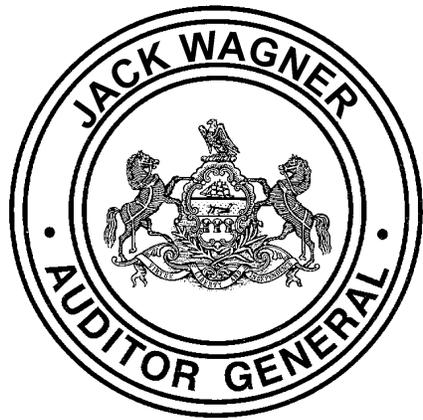
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 4,686
Tokens of sympathy and goodwill	126
Total Benefit Services	\$ 4,812
Fire Services:	
Equipment purchased	\$ 59,230
Equipment maintenance	5,195
Training expenses	4,875
Total Fire Services	\$ 69,300
Administrative Services:	
Miscellaneous administrative expenses	\$ 178
Total Administrative Services	\$ 178
Other Expenditures:	
Principal payments on lease-financing	\$ 25,335
Interest payments on lease-financing	4,180
Undocumented expenditure	700
Total Other Expenditures	\$ 30,215



UPPER AUGUSTA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Upper Augusta Volunteer Firefighters' Relief Association Officers:

Mr. Corey Herb, President

Mr. Christopher Herb, Secretary

Mr. Ray Kern Jr., Treasurer

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

Ms. Eleanor J. Hendricks, Secretary
Rush Township

Ms. Amy A. Horne, Secretary
Upper Augusta 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.