

# COMPLIANCE AUDIT

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## Volunteer Fireman's Relief Association of Bear Lake Fire Department, Warren County, Bear Lake, Pennsylvania

For the Period  
January 1, 2012 to December 31, 2014

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November 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Gordon Smith, President  
Bear Lake Volunteer Firefighters' Relief Association  
Warren County

We have conducted a compliance audit of the Bear Lake 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, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2012 to December 31, 2014. We also evaluated compliance for some areas subsequent to this period as discussed in Finding No. 3.

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.
2. To determine if the volunteer firefighters' relief association received state aid 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 Bear Lake Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, including the safeguarding of assets. Volunteer firefighters' relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we concluded that, for the period January 1, 2012 to December 31, 2014:

- The Bear Lake Volunteer Firefighters' Relief Association took appropriate corrective action to address the finding contained in our prior audit report.
- The Bear Lake Volunteer Firefighters' Relief Association did not, in all significant respects, receive and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the findings listed below and discussed later in this report. Also, because of the significance of the matter described in Finding No. 3, the Bear Lake Volunteer Firefighters' Relief Association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Unauthorized Expenditures

Finding No. 2 – Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 3 – Failure to Deposit State Aid

- The Bear Lake Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2014, had a cash balance of \$1,911 and no investments.

The contents of this report were discussed with the management of the Bear Lake Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

June 15, 2015



EUGENE A. DEPASQUALE  
Auditor General

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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, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, 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 Volunteer Fireman’s Relief Association of Bear Lake Fire Department, Warren County, Bear Lake, Pennsylvania, herein referred to as the Bear Lake 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 118 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 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters’ relief association investment options. Within the parameters established by Act 118, 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 Bear Lake Volunteer Firefighters’ Relief Association was allocated state aid from the following municipalities:

Municipality	County	2012	2013	2014
Bear Lake Borough	Warren	\$ *	\$ **	\$ **
Freehold Township	Warren	\$3,132	\$***	\$***

## **BACKGROUND – (Continued)**

\*The foreign fire insurance tax allocation of \$640 was distributed to the Bear Lake Borough (municipality) municipal secretary in September 2012. According to officials of the Pennsylvania Treasurer's Office (Treasury), the municipality had not cashed or deposited the check as of May 16, 2013. Therefore, the 2012 state aid allocation check sent by the Auditor General and made payable to Bear Lake Borough was considered stale dated and was non-negotiable. On February 24, 2015, the Department of the Auditor General (Department) sent an affidavit to be completed and notarized by the Bear Lake Borough (municipality) municipal secretary confirming that the 2012 state aid allocation check was lost and/or never received. The municipality signed, notarized, and submitted the affidavit attesting to this statement on May 1, 2015. As a result, the 2012 state aid allocation check was reissued to the Bear Lake Borough on July 8, 2015. On August 4, 2015, the municipality distributed the state allocation in the amount of \$640 to the Bear Lake Volunteer Firefighters' Relief Association. However, as of the date of this report, the relief association has not provided the Department with documentation verifying that the state aid of \$640 was deposited, as disclosed in Finding No. 3 contained in this report.

\*\* Historically, the total state aid distributed to Bear Lake Borough has been entirely allocated to the Bear Lake Volunteer Firefighters' Relief Association. Due to the municipality's failure to forward the 2010 and 2011 state aid allocation to Bear Lake Volunteer Firefighters' Relief Association, the state aid allocation was withheld from Bear Lake Borough and the relief association for the years 2013 and 2014. During the current audit period, on June 24, 2014, the 2010 and 2011 state aid allocations in the amounts of \$857 and \$1,132, respectively, were deposited into the relief associations' checking account.

\*\*\* Freehold Township received half of their normal state aid allocation for the years 2013 and 2014. The state aid received was allocated to another relief association and reported on 706B forms to our Department. The remaining state aid that would have been allocated to Freehold Township was historically given to the Bear Lake Volunteer Firefighters' Relief Association. This portion of the state aid was withheld from Freehold Township due to the results of the prior audit.

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

Bear Lake Volunteer Fire Department

BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

The Bear Lake Volunteer Firefighters' Relief Association has complied with the prior audit finding and recommendation, as follows:

- Insufficient Surety (Fidelity) Bond Coverage

By increasing the Surety (Fidelity) bond coverage to an amount greater than the balance of the relief association's cash assets and by decreasing the relief association's cash assets to an amount below the maximum protection of the Surety (Fidelity) bond coverage.

BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Unauthorized Expenditures**

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
09/23/12	509	Token of Sympathy and Goodwill	\$ 25
10/01/12	510	Token of Sympathy and Goodwill	20
01/30/13	513	Token of Sympathy and Goodwill	25
02/13/13	515	Training	350
Total			\$ 420

The expenditures are unauthorized because the tokens of sympathy and goodwill were provided to individuals who were not members of the relief association and the training expenditure was for grant writing.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1, 5, 10) states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.
  
- (5) To pay the cost of procuring and forwarding tokens of sympathy and goodwill to a volunteer firefighter who may be ill or hospitalized as a result of participation in the fire service or who may die or who may be seriously ill for any reason.
  
- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.

Costs associated with tokens of sympathy and goodwill for non-members and training associated with grant writing does not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118.



BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (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 118.

Recommendation: We recommend that the relief association be reimbursed \$475 for the unauthorized expenditures and that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

**Finding No. 2 – Failure To Maintain A Complete And Accurate Equipment Roster**

Condition: The relief association did not maintain a complete and accurate roster of equipment owned by the relief association. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all equipment owned by the relief association.

Criteria: Prudent business practice dictates that 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 equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: Relief association officials failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

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 physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

**Finding No. 3 – Failure To Deposit State Aid**

Condition: The relief association did not deposit the 2012 state aid distributed by Bear Lake Borough, in the amount of \$640, into a relief association account. The \$640 of state aid was distributed by Bear Lake Borough to the relief association on August 4, 2015.

Criteria: The foreign fire insurance tax allocation was distributed to the municipal treasurer on July 20, 2015, who forwarded this state aid to the volunteer firefighters' relief association treasurer on August 4, 2015, which is 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 allocation, the relief association should ensure the funds are timely deposited into a relief association account.

Cause: The relief association failed to establish internal control procedures to ensure that all state aid received is deposited into a relief association account.

Effect: As a result of the state aid not being deposited, the relief association was unable to use the funds for general operating expenses or for investment purposes. In addition, the failure to deposit receipts in a timely manner can lead to a greater risk that funds could be lost or misappropriated.

BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Recommendation: We recommend the relief association immediately locate and deposit the \$640 state aid allocation it received from Bear Lake Borough. In addition, the relief association should 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 indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
POTENTIAL WITHHOLD OF STATE AID

Conditions as detailed in Finding No. 3 of this report may lead to a total withholding of state aid in the future unless this deficiency is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2014

Act 118 at 35 Pa.C.S. § 7412 states: 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. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 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.

Furthermore, 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	\$ 1,206
Tokens of sympathy and goodwill	150
Total Benefit Services	<u>\$ 1,356</u>
Fire Services:	
Equipment purchased	\$ 7,152
Equipment maintenance	161
Training expenses	1,459
Total Fire Services	<u>\$ 8,772</u>

BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Bear Lake Volunteer Firefighters' Relief Association Governing Body:

Mr. Gordon Smith	President
Mr. Monty Johnson	Vice President
Ms. Melissa Willis	Secretary
Mr. Eugene Crosby	Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report:

Ms. Angela Christianson Bear Lake Borough	Secretary
Ms. Penny Lamb Freehold Township	Secretary

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).