



**FIREMEN'S RELIEF ASSOCIATION OF
VOLUNTEER FIRE COMPANY NO. 1 OF GRILL,
BERKS COUNTY, PENNSYLVANIA**

BERKS COUNTY

COMPLIANCE AUDIT REPORT

**FOR THE PERIOD
JANUARY 1, 2009 TO APRIL 10, 2013**

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Kevin Nelson, President
GRILL VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Berks County

We have conducted a compliance audit of the former Grill 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, 2009 to April 10, 2013.

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 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 former Grill 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. 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 former Grill Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the former Grill Volunteer Firefighters' Relief Association's liquidation of cash, investments, and certain other assets and liabilities as of April 10, 2013, 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.

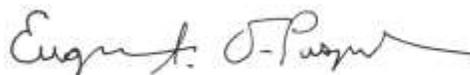
The results of our audit, for the period January 1, 2009 to April 10, 2013, found the former Grill Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the three findings contained in our prior audit report. However, the former Grill Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the former Grill Volunteer Firefighters' Relief Association, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed in detail later in this report. The results of our tests also indicated the former Grill Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information. However, as of April 5, 2013, the Grill Volunteer Firefighter's Relief Association dissolved its organization.

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Record-Keeping Over Membership Dues And Death Assessments.
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster.
- Finding No. 3 – Inadequate Financial Record-Keeping – Transfer Of Assets.

Furthermore, a scope limitation on our audit exists, as detailed in the Observation section of this report.

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

April 14, 2014

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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 former Firemen's Relief Association of Volunteer Fire Company No. 1 of Grill, Berks County, Pennsylvania herein referred to as the Grill Volunteer Firefighters' Relief Association, was 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.

BACKGROUND – (Continued)

The Grill Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Cumru Township	Berks	\$31,906	*	**

* Beginning in 2010, Cumru Township ceased allocations to the former Grill Volunteer Firefighter’s Relief Association and began allocating its state aid to the Cumru Township Volunteer Firefighter’s Relief Association.

**As of April 10, 2013, the Grill Volunteer Firefighter’s Relief Association dissolved its organization. Thereafter, it did not receive any further state aid allocations. (See Accompanying Expenditure Information on page 11).

The volunteer firefighters’ relief association and the affiliated fire service organizations are separate, legal entities. The former Grill Volunteer Firefighters’ Relief Association was affiliated with the following fire service organizations:

Volunteer Fire Company No. 1 of Grill

GRILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Grill Volunteer Firefighters' Relief Association has complied with one of the three prior audit findings and recommendations, as follows:

- Improper Cell Phone Transactions

By receiving reimbursements from volunteer firefighters for personal cell phone charges and discontinuing the practice of acting as a purchasing agent for members' personal equipment.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The former Grill Volunteer Firefighters' Relief Association has not complied with two of the three prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation – Inadequate Record-Keeping Over Membership Dues and Death Payments.
- Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster.

We are concerned with the former Grill Volunteer Firefighters' Relief Association's failure to correct the previously reported audit findings before it ceased operations on April 10, 2013. Since the former Grill Township Volunteer Firefighters' Relief Association's monetary assets and equipment were transferred to Cumru Township Volunteer Firefighters' Relief Association, the Cumru Township relief association management should determine whether the deficiencies noted in this audit report exist in its organization, and if so, take appropriate corrective action.

GRILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Record–
Keeping Over Membership Dues and Death Assessments

Condition: As cited in our prior audit report, the relief association failed to maintain adequate records supporting the collection of membership dues and death assessments. The following inadequacies were noted:

- Membership dues and death assessments were not timely collected.
- Outstanding balances of membership dues and death assessments for each member were not documented;
- Details of who paid and when the amounts were received were not maintained;
- Amounts collected did not reconcile to the bylaws related to assessments and the number of members' deaths;
- Names, number of members who received death assessment notices, etc. could not be provided by the relief association.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states:

...must provide for the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, Sections 1 through 8 of Article IV of the relief association bylaws provide specific criteria as to who is to pay membership dues and the requirement for suspensions resulting from late or non-payment of such membership dues.

Furthermore, Sections 1 through 11 of Article XVII of the relief association's bylaws outline the criteria for the payment of death benefits to members and also the death assessment amounts due from members to maintain the current death benefit, including procedures for late and non-payment of such assessments by relief association members. Each relief association member is notified by mail of the assessment amount and due date. All funds collected for this assessment are used to fund death benefit payments for the beneficiaries of members who have died.

Cause: Even though notified of this condition during our prior audit, relief association officials again, neglected their various record-keeping responsibilities.

Effect: As a result of the relief association's continued failure to maintain adequate internal control over record-keeping, the relief association was not able to substantiate membership dues and death assessments collected.

GRILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: Due to the dissolution of the former Grill Volunteer Firefighters' Relief Association, we are providing officials of the Cumru Township Volunteer Firefighters' relief Association copies of this report so that they are aware of the conditions that were detected in the operations of the former Grill Volunteer Firefighters' Relief Association during the course of our audit. We recommend that Cumru Township Volunteer Firefighters' 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 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: Due to the dissolution of the former Grill Volunteer Firefighters' Relief Association, compliance will be subject to verification during our next audit of the Cumru Township Volunteer Firefighters' Relief Association.

GRILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation - Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our prior audit report, relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. Specifically, not all equipment owned or purchased during the prior audit period was appropriately recorded on the roster. A similar condition occurred during the current audit period. The relief association did not record equipment purchases totaling \$52,865 during the current audit period.

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 owned equipment. A cumulative equipment roster of all relief association equipment should include 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; and
- Evidence of the performance and results of an annual physical inventory.

Cause: Even though notified of this condition during our prior audit, relief association officials again, neglected to establish adequate internal control procedures over equipment 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, as a result of the incomplete and inaccurate equipment roster, we could not determine if all of the equipment owned by the former Grill Volunteer Firefighters' Relief Association was appropriately transferred to the Cumru Township Volunteer Firefighters' Relief Association at the time of the dissolution of the Grill Volunteer Firefighters' Relief Association.

GRILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: Due to the dissolution of the former Grill Volunteer Firefighters' Relief Association, we are providing officials of the Cumru Township Volunteer Firefighters' Relief Association copies of this report so that they are aware of the conditions that were detected in the operations of the former Grill Volunteer Firefighters' Relief Association during the course of our audit. We recommend that the Cumru Township Volunteer Firefighters' Relief Association maintain a cumulative equipment roster of all relief association owned equipment, including any equipment transferred from the former Grill Volunteer Firefighters' Relief Association and ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory is 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: Due to the dissolution of the former Grill Volunteer Firefighters' Relief Association, compliance will be subject to verification during our next audit of the Cumru Township Volunteer Firefighters' Relief Association.

GRILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Financial Record-Keeping System – Transfer of Assets

Condition: The former relief association's financial record-keeping system did not provide effective control over cash receipts, disbursements, and monetary assets, and does not meet the minimum requirements of maintaining financial records established by this department. Specifically, the former Grill Volunteer Firefighters' Relief Association merged with Gouglersville and Cedar Top Volunteer firefighters' Relief Associations to form the Cumru Township Volunteer Firefighters' Relief Association on April 10, 2013; however, we were unable to determine whether the former relief association transferred all of the remaining funds in one of its checking accounts to the newly formed relief association. Although the former relief association forwarded \$964 from this account, we were unable to determine the true balance at the date of transfer due to a lack of subsequent bank statements and also a lack of availability of a third party confirmation from the financial institution as disclosed in the Observation section of this report. As such, according to relief association records, it appears there remains an unexpended balance of \$300 with the financial institution.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states:

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, an adequate system of accounting and record keeping is a prerequisite for sound administration of relief association assets.

Cause: Former relief association officials failed to maintain and provide documents related to the association's cash account with Susquehanna Bank subsequent to March 2013. And although the former official of the relief association responsible for maintaining such documentation was notified several times during the audit engagement, he failed to provide a final, close-out bank statement which is required for merged and closed-out relief associations along with the bank's inability to provide us with a confirmation of the liquidated cash account balance.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations and created the inability to clearly document that all assets were appropriately transferred to the Cumru Township Volunteer firefighters' Relief Association.

GRILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: Due to the dissolution of the former Grill Volunteer Firefighters' Relief Association, we are providing officials of the Cumru Township Volunteer Firefighters' Relief Association copies of this report so that they are aware of the conditions that were detected in the operations of the former Grill Volunteer Firefighters' Relief Association during the course of our audit. We recommend that the Cumru Township Volunteer Firefighters' Relief Association establish and maintain a financial record-keeping system that meets the minimum record-keeping requirements of this department. In addition, we recommend that officials of the Cumru Township Volunteer Firefighters' Relief Association ensure that the checking account from the former merged association has been properly closed and maintain the appropriate documentations of such closure which will be examined in the next audit. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management of Cumru Township agreed with the finding and indicated from Grill association were no longer available for discussion.

Auditor's Conclusion: Due to the dissolution of the former Grill Volunteer Firefighters' Relief Association, compliance will be subject to verification during our next audit of the Cumru Township Volunteer Firefighters' Relief Association.

GRILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION
FOR THE PERIOD JANUARY 1, 2009 TO APRIL 10, 2013

Observation – Scope Limitation

The Grill Volunteer Firefighters' Relief Association (VFRA) does not maintain canceled or imaged checks. While the VFRA provided bank statements, the VFRA failed to provide copies of canceled or imaged checks. Furthermore, Susquehanna account statements were not provided from April 2013 to April 2014. Also a confirmation from Susquehanna Bank could not be obtained.

Act 118 at 35 Pa.C.S. § 7415(c)(3) requires that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

Act 118 at 35 Pa.C.S. § 7418(a) provides that the Department of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association . . . as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Generally Accepted Government Auditing Standards (GAGAS) Section No. 6.56 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 6.61(f) states, "Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity."

Our inability to review canceled or imaged checks, bank statements or a confirmation, constitutes a scope limitation on our audit.

GRILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO APRIL 10, 2013

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	\$ 8,762
Death benefits	2,100
Total Benefit Services	<u>\$ 10,862</u>
Fire Services:	
Equipment purchased	\$ 52,865
Equipment maintenance	18,044
Training expenses	3,819
Total Fire Services	<u>\$ 74,728</u>
Administrative Services:	
Officer compensation	\$ 1,900
Other administrative expenses	400
Total Administrative Services	<u>\$ 2,300</u>
Total Investments Purchased:	<u>\$ 5,000</u>
Other Expenditures:	
Transfer Of Assets****	<u>\$ 964</u>

GRILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2009 TO APRIL 10, 2013

*** Transfer of Monetary Assets/Dissolution of Grill Volunteer Firefighters' Relief Association

As of April 10, 2013, the Grill Volunteer Firefighters' Relief Association completed the process of dissolution and merged with Cedar Top Volunteer Firefighters' Relief Association and Gouglersville Volunteer Firefighters' Relief Association to form Cumru Township Volunteer Firefighters' Relief Association. Consequently, all remaining monetary assets were transferred to the Cumru Township Volunteer Firefighters' Relief Association. Due to the dissolution of the former Grill Volunteer Firefighters' Relief Association, we are providing officials of the Cumru Township Volunteer Firefighters' Relief Association copies of this report.

GRILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Grill Volunteer Firefighters' Relief Association Governing Body:

Mr. Kevin Nelson	President
Mr. Jan Dietrich	Vice President
Mr. Andrew Fakete	Secretary
Ms. Donna Fakete	Treasurer

Cumru Volunteer Firefighters' Relief Association Governing Body:

Mr. Kevin Burns	President
Mr. James Sieger	Vice President
Mr. Larry Pisano	Secretary
Mr. Andrew Hallman	Treasurer

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

Ms. Jeanne E. Johnston, Secretary
Cumru Township

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.