



**VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
OF LEHIGHTON, CARBON COUNTY
PENNSYLVANIA**

CARBON COUNTY

COMPLIANCE AUDIT REPORT

**FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012**

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Jason Nothstein, President
LEHIGHTON VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Carbon County

We have conducted a compliance audit of the Lehigh 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, 2010 to December 31, 2012.

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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objectives of the audit was 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 Lehigh 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 Lehigh Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Lehigh Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2012, 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, 2010 to December 31, 2012, found the Lehigh 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 later in this report. The results of our tests also indicated the Lehigh Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$47,243 and an investment balance with a fair value of \$189,728.

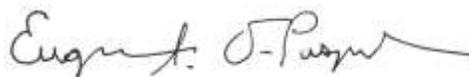
Finding No. 1 – Untimely Deposit of State Aid

Finding No. 2 – Unauthorized Expenditure

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 Lehigh Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

April 9, 2014



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Untimely Deposit of State Aid	3
Finding No. 2 – Unauthorized Expenditure.....	4
Observation:	
Observation - Scope Limitation	6
Accompanying Expenditure Information	7
Report Distribution List	8

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 Firemen's Relief Association of Lehighton, Carbon County, Pennsylvania, herein referred to as the Lehighton 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.

BACKGROUND – (Continued)

The Lehigh Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Lehigh Borough	Carbon	\$30,493	\$46,049	\$26,161
Weissport Borough	Carbon	\$ 2,149	\$ 3,155	\$ 1,785

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

Lehigh Fire Department

LEHIGHTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Deposit of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2012 state aid allocation it received from Weissport Borough, in the amount of \$1,785, until March 7, 2013.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that, upon receipt of its state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

Cause: The relief association failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner. The Weissport Borough sent the check to the prior treasurer; however, the borough had to issue another check to the relief association.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. 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.

LEHIGHTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditure

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

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
08/15/2010	802	Funeral service for prior fire chief	\$ 265
05/16/2011	821	Funeral service for prior fire chief	1,400
09/20/2011	835	Funeral expenses for a spouse	<u>100</u>
Total unauthorized expenditures			<u><u>\$ 1,765</u></u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(3,5,6) states:

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

- (3) To maintain a beneficiary or death benefit fund and to pay a sum certain from that fund to the beneficiary of a participant in that fund upon death. If a beneficiary is not designated or a designated one has predeceased the participant, the sum certain shall be paid to the estate of the participant.
- (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.
- (6) To make cash payments to families in distressed circumstances by reason of age, infirmity or other disability suffered by one of the family members in the course of participation in the fire service as a volunteer firefighter.

Costs associated with the funeral services and funeral meal expenses, do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

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

LEHIGHTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

Recommendation: We recommend the relief association be reimbursed \$1,765 for the unauthorized expenditure 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 did not agree with the finding as presented at the audit exit conference and felt that these expenditures should be authorized under Act 118. However, subsequent to our audit period, on March 20, 2014, the relief association received reimbursement in the amount of \$1,765 from the affiliated fire department for the unauthorized expenditures.

Auditor's Conclusion: Based on the management response, it appears that the relief association has complied with the finding recommendation. Compliance will be subject to verification during our next audit.

LEHIGHTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2010 TO DECEMBER 31, 2012

Observation – Scope Limitation

\$20,363 of the Lehighon Volunteer Firefighters' Relief Association's (VFRA) investment balance reported at \$189,728, as of December 31, 2012, could not be confirmed. While we able to confirm investment balances in the amount of \$169,365, the remaining balance of \$20,363 was not confirmed by the other financial institution. Requests for an independent confirmation of the investment balance were made on March 14, 2013 and May 8, 2013 to the financial institution from which the VFRA purchased the investment and numerous times contacting the financial advisor for assistance in obtaining this confirmation. While the VFRA provided a December 31, financial institution account statement, the financial institution failed to provide an independent confirmation of the investment balance.

Act 118 at 35 Pa.C.S. § 7418(a) states, in part, that the Office 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."

Statement of Auditing Standards (SAS) No. 106 requires auditors to request independent confirmations of investment balances directly from the financial institution from which the VFRA purchased the investment.

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.

Even though we made several requests, a confirmation of \$20,363 of the total relief association's investment balance of \$189,728 was not provided by the respective financial institution.

Our inability to confirm the total investment balance constitutes a scope limitation on our audit, as this scope limitation prevented us from determining the fair value of \$20,363 of the VFRA's total investment balance reported at \$189,728, as of December 31, 2012.

LEHIGHTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2010 TO DECEMBER 31, 2012

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	\$ 29,462
Death benefits	5,000
Tokens of sympathy and goodwill	1,991
Total Benefit Services	\$ 36,453
Fire Services:	
Equipment purchased	\$ 12,750
Equipment maintenance	13,871
Training expenses	1,908
Total Fire Services	\$ 28,529
Administrative Services:	
Officer compensation	\$ 3,300
Other administrative expenses	248
Total Administrative Services	\$ 3,548
Total Investments Purchased:	\$ 135,000
Other Expenditures:	
Undocumented Expenditures	\$ 7,868

LEHIGHTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Lehigh Volunteer Firefighters' Relief Association Governing Body:

Mr. Jason Nothstein	President
Mr. Robert Rehnert	Vice President
Mr. Dominic Civitano	Secretary
Mr. Dominic Civitano	Treasurer
Mr. Douglas Nothstein	Trustee/Director
Mr. Jeffrey Bachman	Trustee/Director
Mr. Stephen Ebbert	Trustee/Director

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

Ms. Brenda L. Koons, Secretary
Lehigh Borough

Ms. Dana L. Brubaker, Secretary
Weissport Borough

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.