

# COMPLIANCE AUDIT

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## Blue Rock Fire Rescue Relief Association Lancaster County, Pennsylvania For the Period July 1, 2011 to December 31, 2013

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October 2014



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Mr. Daniel Bezek, President  
BLUE ROCK FIRE RESCUE VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Lancaster County

We have conducted a compliance audit of the Blue Rock Fire Rescue 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 July 1, 2011 to December 31, 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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Blue Rock Fire Rescue 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Blue Rock Fire Rescue Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Blue Rock Fire Rescue Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2013, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. 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 objective.

The results of our audit, for the period July 1, 2011 to December 31, 2013, found the Blue Rock Fire Rescue 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

Finding No. 1 – Unauthorized Expenditure

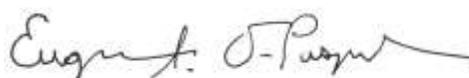
Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

The results of our tests also indicated the Blue Rock Fire Rescue Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$312,363 and no investments.

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 Blue Rock Fire Rescue Volunteer Firefighters' Relief Association and, where appropriate, their responses have 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.

September 25, 2014



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 Blue Rock Fire Rescue Relief Association, herein referred to as the Blue Rock Fire Rescue 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 Blue Rock Fire Rescue Volunteer Firefighters’ Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
East Hempfield Township	Lancaster	\$ 6,650	\$ 3,782	\$ 3,782
Manor Township	Lancaster	\$ 226,368	\$ 128,582	\$ 145,969
Millersville Borough	Lancaster	\$ 72,640	\$ 41,191	\$ 46,089

The volunteer firefighters’ relief association and the affiliated fire service organization are separate, legal entities. The Blue Rock Fire Rescue Volunteer Firefighters’ Relief Association is affiliated with the following fire service organization:

**Blue Rock Fire Rescue**

The Blue Rock Fire Rescue Volunteer Firefighters’ Relief Association began operations in July 1, 2011. Prior to beginning operations, the Blue Rock Fire Rescue Volunteer Firefighters’ Relief Association received monetary assets and/or equipment from the former Goodwill, Highville, Millersville, and West Lancaster Volunteer Firefighters’ Relief Associations after their formal dissolutions and subsequent merger into Blue Rock Fire Rescue Volunteer Firefighters’ Relief Association. We were concerned with the former Goodwill, Highville, and West Lancaster Volunteer Firefighters’ Relief Associations’ failure to correct previously reported audit findings for each of these former entities and we recommended that the Blue Rock Fire Rescue Volunteer Firefighters’ Relief Association’s management strive to implement the recommendations and corrective actions noted in each of the former relief associations’ final audit reports. The Blue Rock Fire Rescue Volunteer Firefighters’ Relief Association’s corrective actions are discussed in the Status of Prior Findings section of this report.

BLUE ROCK FIRE RESCUE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

Due to the dissolution of the former Goodwill, Highville, Millersville, and West Lancaster Volunteer Firefighters' Relief Associations, officials of the Blue Rock Fire Rescue Volunteer Firefighters' Relief Association were provided copies of these entities' final close-out audit reports so that officials were made aware of the conditions that were detected in the operations of the former Goodwill, Highville, Millersville and West Lancaster Volunteer Firefighters' Relief Associations during the course of their audits. The Blue Rock Fire Rescue Volunteer Firefighters' Relief Association has complied or attempted to comply with the prior audit findings and recommendations, as follows:

Former Goodwill Volunteer Firefighters' Relief Association:

- Unauthorized Expenditures;
- Undocumented Expenditures; and
- Duplicate Payment

By attempting to receive reimbursement from the former Goodwill Fire Company. However, due to the merger, the current fire commission for Blue Rock Fire Rescue, Blue Rock Fire District, acquired the debt of the former fire company but there were no available funds to reimburse the relief association for the prior audit deficiencies.

Former Highville Volunteer Firefighters' Relief Association:

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment;

- Undocumented Expenditures; and
- Unauthorized Expenditures

By attempting to receive reimbursement from the former Highville Fire Company. However, due to the merger, the current fire commission for Blue Rock Fire Rescue, Blue Rock Fire District, acquired the debt of the former fire company but there were no available funds to reimburse the relief association for the prior audit deficiencies.

- Inadequate Minutes Of Meetings

By maintaining detailed minutes of all relief association meetings held during the period; and

BLUE ROCK FIRE RESCUE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS –  
(Continued)

Former Highville Volunteer Firefighters' Relief Association (Continued):

- Inadequate Signatory Authority For The Disbursement Of Funds

By requiring more than one signature on all negotiable instruments.

Former West Lancaster Volunteer Firefighters' Relief Association:

- Undocumented Expenditures

By attempting to receive reimbursement from the former West Lancaster Fire Company. However, due to the merger, the current fire commission for Blue Rock Fire Rescue, Blue Rock Fire District, acquired the debt of the former fire company but there were no available funds to reimburse the relief association for the prior audit deficiencies.

- Failure To Maintain Surety (Fidelity) Bond Coverage

By maintaining adequate officers' bond coverage for the current period;

- Inadequate Minutes of Meetings

By maintaining minutes of all relief association meetings held during the period;

- Inadequate Financial Record-Keeping System

By establishing adequate accounting procedures that meet the minimum financial record-keeping requirements of this department;

- Undocumented Loan

By liquidating the loan and depositing the funds into the relief association checking account;

- Inappropriate Ownership of Rescue Vehicle

By re-titling the vehicle in the name of the relief association;

BLUE ROCK FIRE RESCUE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS –  
(Continued)

Former West Lancaster Volunteer Firefighters' Relief Association (Continued):

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative inventory roster of all equipment owned; and

- Untimely Deposit of State Aid

By establishing accounting and internal control procedures to ensure that all income received is deposited in the relief association's account.

Former Millersville Volunteer Firefighters' Relief Association:

There were no prior audit finding recommendations included in the prior audit report.

BLUE ROCK FIRE RESCUE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Unauthorized Expenditure**

Condition: The relief association expended \$8,201 for fire company insurance premiums during the current audit period that is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1 and 2) states:

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

- (1) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of the member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.
- (2) To pay in full or in part for damage or loss in any of the categories mentioned in paragraph (2) in a specific case where: (i) no policy of insurance is in force covering the risk; or (ii) the amount payable under insurance policies in force is inadequate to cover the loss.

Costs associated with fire company insurance premiums do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials erroneously expended funds for the fire company insurance premium was not authorized by Act 118.

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.

BLUE ROCK FIRE RESCUE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend the relief association be reimbursed \$8,201 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 agreed with the finding as presented at the exit conference and contacted the insurance carrier and implemented procedures to ensure that future insurance expenditures are paid in accordance with the act. However, in regards to the reimbursement noted above, relief association officials indicated that some consideration should be given for expenditures previously paid for through the affiliated fire company's general operating fund for such items as vehicles, equipment, office supplies etc., which could have been paid for from relief association funds, towards the amount owed to the relief association. Officials also indicated that the affiliated fire organization would be willing to donate an additional \$20,494 worth of recently purchased radios, which could have been purchased with relief association funds, to the relief association in lieu of the reimbursement.

Subsequent to the audit period, on September 4, 2014, the relief association was reimbursed, in the amount of \$8,201, from the affiliated fire company.

Auditor's Conclusion: It appears that the relief association has complied with our recommendation. Compliance will be subject to verification through our next audit.

**Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage**

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$125,000; however, as of December 31, 2013, the relief association's cash assets totaled \$312,363.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

BLUE ROCK FIRE RESCUE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: Relief association officials failed to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

Effect: As a result of the authorized disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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 subsequent to the audit period, effective August 18, 2014, the relief association increased their bond coverage to an amount greater than the balance of their cash assets.

Auditor's Conclusion: It appears that the relief association has complied with our recommendation. Compliance will be subject to verification through our next audit.

BLUE ROCK FIRE RESCUE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
OBSERVATION

**Observation – Scope Limitation**

The Blue Rock Fire Rescue Volunteer Firefighters' Relief Association (VFRA) cash balance reported as \$312,363, as of December 31, 2013, could not be confirmed. Requests for an independent confirmation of the cash balance were made on March 24, 2014, and June 27, 2014 to the financial institution from which the VFRA held this cash account. While the VFRA provided a December 31, 2013 financial institution statement, the financial institution failed to provide an independent confirmation of the cash balance.

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."

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.

Even though we made several requests, a confirmation of the VFRA's cash balance was not provided by the financial institution. Our inability to confirm the VFRA's total cash balance constitutes a scope limitation on our audit, as this scope limitation prevented us from determining the fair value of the VFRA's reported cash balance of \$312,363, as of December 31, 2013.

BLUE ROCK FIRE RESCUE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JULY 1, 2011 TO DECEMBER 31, 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	\$ 89,465
Relief benefits	2,848
Total Benefit Services	\$ 92,313
Fire Services:	
Equipment purchased	\$ 237,148
Equipment maintenance	169,100
Training expenses	34,850
Fire prevention materials	1,025
Total Fire Services	\$ 442,123
Administrative Services:	
Other administrative expenses	\$ 25,217

BLUE ROCK FIRE RESCUE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Blue Rock Fire Rescue Volunteer Firefighters' Relief Association Governing Body:

Mr. Daniel Bezek	President
Mr. Darrick Buswell	Vice President
Mr. John Mayzum	Secretary
Mr. Richard Schock	Treasurer
Mr. Bob Howells	Assistant Secretary
Mr. Tim Frey	Assistant Treasurer

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

Mr. Robert S. Kimmel East Hempfield Township	Secretary
Mr. Barry L. Smith Manor Township	Secretary
Mr. Edward J. Arnold Millersville Borough	Secretary

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://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.sate.pa.us](mailto:news@auditorgen.sate.pa.us).