



**ANNVILLE AREA VOLUNTEER FIREMEN'S
RELIEF ASSOCIATION**

LEBANON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2010

AUGUST 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Mark Blauch, President
ANNVILLE AREA VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lebanon County

We have conducted a compliance audit of the Anville Area 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 December 31, 2010.

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 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 Anville Area 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 Annville Area Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Annville Area Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2010, 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 January 1, 2009 to December 31, 2010, found the Annville Area Volunteer Firefighters' Relief Association, in all significant respects, received 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 Annville Area Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$9,258 and an investment balance with a fair value of \$70,014.

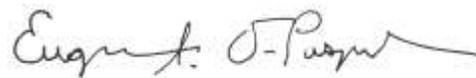
Finding No. 1 – Theft of Relief Association Funds

Finding No. 2 – Inadequate Minutes of Meetings

Finding No. 3 – Failure to Maintain a Complete and Accurate Membership Roster

The contents of this report were discussed with the management of the Annville Area Volunteer Firefighters' Relief Association.

July 1, 2011



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 Annville Area Volunteer Firemen's Relief Association, herein referred to as Annville Area 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 Annville Area Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>
North Annville Township	Lebanon	\$16,064	\$18,081

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

Bellgrove Fire Company
Union Water Works Fire Company

ANNVILLE AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Theft of Relief Association Funds

Condition: During the current audit period, the fire chief of the affiliated fire company stole \$16,245 in relief association funds. The relief association funds were disbursed as follows:

<u>Date</u>	<u>Check No.</u>	<u>Payee</u>	<u>Amount</u>
11-2-09	1229	FC Chief	\$ 1,900
12-17-09	1232	FC Chief	\$ 2,295
01-19-10	1236	FC Chief	\$ 1,850
02-01-10	1237	FC Chief	\$ 7,400
02-19-10	1238	FC Chief	\$ 2,800
Total			<u>\$ 16,245</u>

The fire chief falsified invoices for fire equipment purchases he never made and submitted the fictitious invoices to the relief association for reimbursement. The relief association issued the above checks to the fire chief who subsequently cashed the checks.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states, in part:

The Department of the Auditor General shall have the power and its duty shall be, to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), [FN1] known as the "Municipal Pension Plan Funding Standard and Recovery Act," 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.

Cause: Relief officials were not aware that invoices for fire equipment purchases were falsified by the fire chief when initial requests for reimbursement were made. However, in early 2010 after the reimbursements were made to the fire chief, relief officers suspected the theft and contacted the state police about the matter.

Effect: As a result of the theft, relief association funds were not available to pay for expenditures authorized by Act 118 or for investment purposes. On August 23, 2010, the fire company reimbursed the relief association \$16,245. In February 2011, the former fire chief was sentenced to six to 23 months in prison and fined \$600; he was also ordered to pay restitution.

ANNVILLE AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

Finding No. 1 - (Continued)

Recommendation: We recommend that the relief association officials ensure that before there is a payment of relief association funds, the expenditure be fully and adequately supported by genuine vendor invoices. In addition, in the future, relief association officials should be cautious of any request for reimbursement to a fire company member. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

ANNVILLE AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Inadequate Minutes of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings, as required by Act 118. Specifically, the relief association's minutes did not address or contain approvals for the five disbursements made to the affiliated fire company chief which were later deemed as theft of relief association funds, as detailed in Finding No. 1 of this report.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

. . . 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.

Cause: Relief association officials were aware that maintenance of detailed minutes of meetings are required by Act 118. However, these five questionable disbursements were not addressed or approved in the relief association meeting minutes.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist. Furthermore, the relief officials' possible failure to review the propriety of these expenditures prior to disbursement constitutes a significant internal control weakness that enabled the theft of funds detailed in Finding No. 1.

Recommendation: We recommend the relief association maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

ANNVILLE AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

Finding No. 3 – Failure to Maintain a Complete and Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members. The relief association is affiliated with two fire companies, the Bellgrove Fire Company and the Union Water Works Fire Company. A membership roster was provided for Bellgrove Fire Company but no membership roster was provided for the Union Water Works Fire Company.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member;
- Members' mailing addresses;
- Dates of births;
- Dates of memberships; and
- Membership classifications.

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

While it is not necessary for the relief association and each of the affiliated fire service organizations to maintain separate records, it is the relief association's responsibility to have sufficient records to be able to determine if all relief association members are properly recorded on a membership roster.

Cause: During our prior audit, a verbal observation, recommending the relief association maintain a comprehensive listing of relief association members, was issued to the relief association. However, during the current audit period, the relief association, again, failed to maintain a comprehensive listing of all relief association members.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

ANNVILLE AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2010

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	\$ 8,311
Total Benefit Services	\$ 8,311
Fire Services:	
Equipment purchased	\$ 21,177
Equipment maintenance	3,772
Training expenses	3,946
Total Fire Services	\$ 28,895
Administrative Services:	
Other administrative expenses	\$ 789
Total Administrative Services	\$ 789
Total Investments Purchased:	\$ 30,000
Other Expenditures:	
Theft of Funds	\$ 16,245
Total Other Expenditures	\$ 16,245



ANNVILLE AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Annville Area Volunteer Firefighters' Relief Association Governing Body:

Mr. Mark Blauch, President

Mr. Brian Burke, Vice President

Ms. Deborah Bohr, Secretary

Mr. Leroy Leach, Treasurer

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

Mr. Adam D. Wolfe, Secretary
North Annville 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.