



**THE HERSHEY FIREMAN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA**

HEREIN REFERRED TO AS:

HERSHEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

DAUPHIN COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005 TO DECEMBER 31, 2008



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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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), 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 Hershey 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 84 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 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, 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 Hershey Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

| <u>Municipality</u> | <u>County</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|---------------------|---------------|-------------|-------------|-------------|-------------|
| Conewago Township | Dauphin | \$ 4,259 | \$ 4,476 | \$ 4,591 | \$ 4,787 |
| Derry Township | Dauphin | \$194,744 | \$195,810 | \$195,217 | \$198,191 |

BACKGROUND (Continued)

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

Hershey Volunteer Fire Company

Mr. Andrew Fischer, President
HERSHEY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Dauphin County

We have conducted a compliance audit of the Hershey 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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2005 to December 31, 2008.

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 finding contained in our prior audit report; and
2. 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 objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Hershey Volunteer Firefighters' Relief Association's administration of state aid and accumulated 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 Hershey Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Hershey Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, 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, 2005 to December 31, 2008, found the Hershey Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this report. In addition, the results of our audit found, in all significant respects, the Hershey Volunteer Firefighters' Relief Association received and expended state aid and accumulated funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Hershey Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$240,922 and an investment balance with a fair value of \$471,897.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Failure to Maintain Officer's Bond Coverage

Finding No. 4 – Failure to Monitor Bank Account Activity

Finding No. 5 – Untimely Deposit of State Aid

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

December 23, 2009

JACK WAGNER
Auditor General

HERSHEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Hershey Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

We are concerned with the volunteer firefighters' relief association's failure to correct a previously reported audit finding. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

HERSHEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our three prior audit reports, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While a listing of relief association owned equipment was provided, it was incomplete and did not accurately identify equipment owned by the relief association. Specifically, the list of equipment that was provided did not contain dates of purchase, unit costs, names of suppliers, nor serial numbers, when available, to accurately identify equipment owned. As such, it was impossible to determine if all items purchased during the audit period had been recorded. 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 of the relief association's fixed assets.

Criteria: 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 fixed assets. A cumulative equipment roster of all relief association equipment should include the following:

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

Furthermore, sound business practice requires the performance of an annual physical inventory of all relief association owned equipment.

Cause: While notified of this condition during our three prior audits, relief association officials neglected to establish adequate internal control procedures over fixed assets 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 fixed assets prevents adequate accountability for, and safeguarding of, relief association fixed assets.

HERSHEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. 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.

HERSHEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items that are not authorized by Act 84:

| <u>Date</u> | <u>Check No.</u> | <u>Description</u> | <u>Amount</u> |
|-------------|------------------|--------------------|-----------------|
| 02/26/05 | 2287 | College tuition | \$ 966 |
| 04/03/05 | 2291 | College tuition | 525 |
| 02/20/06 | 2354 | College tuition | 778 |
| 10/27/07 | 2454 | College tuition | 1,053 |
| 01/26/08 | 2465 | College tuition | <u>542</u> |
| Total | | | <u>\$ 3,864</u> |

According to relief association management, the college accredited courses were taken as part of obtaining a fire service degree.

Criteria: Act 84 at 53 P.S. § 8506(e)(10) states:

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

- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.

Because the Department of the Auditor General is legislatively prohibited from giving pre-audit advice, an interagency agreement with the Department of Community and Economic Development (DCED) has been established whereby the DCED provides interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." Advanced college courses have been deemed by DCED to not qualify as a "bona fide firefighters' training school"; consequently, these disbursements for advanced college courses are not authorized under Act 84.

The guidance regarding the permissibility of certain expenses under Act 84 is provided on page 18 of the Management Guidelines for Volunteer Firefighters; Relief Associations, the policy states:

College accredited classes consisting of advanced course work in preparation for a career professional firefighter occupation, or closely related occupation, do not meet the criteria for reimbursement with relief association funds.

HERSHEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials were unaware that the aforementioned expenditures were not authorized by Act 84.

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 84.

Recommendation: We recommend the relief association be reimbursed \$3,864 for the unauthorized expenditures and that relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) 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.

HERSHEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Maintain Officer's Bond Coverage

Condition: The relief association failed to maintain bond coverage on the disbursing officer, as required by Act 84. The bond policy lapsed on September 22, 2008, and there was no bond coverage in place from September 22, 2008 through the date of this report.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary, or otherwise, shall be bonded by corporate surety for the faithful performance of his duties. The amount of such 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 such bond shall be a proper charge against the funds of the association.

Cause: Relief association officials were aware of the Act 84 provisions regarding the maintenance of officer's bond coverage, but neglected to renew the coverage when the policy lapsed on September 22, 2008.

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

Recommendation: We recommend the relief association obtain officer's bond coverage in an amount greater than the maximum cash balance as required by Act 84. 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.

HERSHEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Monitor Bank Account Activity

Condition: Relief association officials failed to monitor each of the relief association's bank accounts throughout the audit period. Specifically, on March 11, 2008, funds in one of the relief association's checking accounts, totaling \$66,936, was escheated to the Pennsylvania Treasury Department due to inactivity. According to relief association officials, the relief association did not realize the funds were withdrawn.

Criteria: The relief association's governing body has ultimate authority and the fiduciary responsibility for financial management and safeguarding of the relief association's assets. Relief association management is obligated to at least periodically review the relief association's assets.

Cause: Relief association officials failed to establish adequate internal control procedures over the relief association's assets. The relief association officials were under the assumption that the account was still active even though no checks had been written from, nor deposits made (except interest), to the account.

Effect: The relief association's failure to monitor account activity resulted in the funds being escheated. The relief association lost interest income because the relief association was without the \$66,936 for a 14 month period. In addition, such failure places the assets at a greater risk of misappropriation.

However, on May 18, 2009, prior to the start of the audit, the relief association deposited the escheated funds, in the amount of \$66,936, as a result of the Pennsylvania Treasury Department returning the funds back to the relief association.

Recommendation: We recommend that the management of the relief association monitor all relief association accounts to ensure funds are properly safeguarded. 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 presented at the audit exit conference and indicated they will take action to comply with the recommendation..

HERSHEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Untimely Deposit of State Aid

Condition: The volunteer firefighters' relief association failed to timely deposit its 2007 state aid allocations:

| <u>Year</u> | <u>Municipality</u> | <u>Amount</u> | <u>Date Municipality Distributed Aid</u> | <u>Deposit Date</u> |
|-------------|---------------------|---------------|--|---------------------|
| 2007 | Conewago Township | \$ 4,591 | 10/10/07 | 02/05/08 |
| 2007 | Derry Township | 195,217 | 10/23/07 | 01/28/08 |

Criteria: The foreign fire insurance tax allocation was distributed to the municipal treasurers, who forwarded this state aid to the volunteer firefighters' relief association 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 deposited in a timely manner.

Cause: The relief association failed to establish internal control procedures requiring that all income received be recorded and deposited in a timely manner.

Effect: As a result of the untimely deposits, funds were not available to pay general operating expenses or for investment purposes. In addition, untimely deposits 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.

HERSHEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2008

Act 84 at 53 P.S. § 8502(1) states, in part, that:

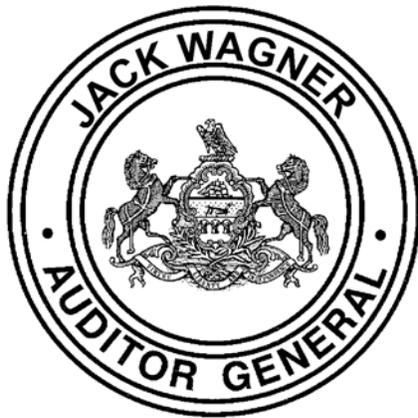
A volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, 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. 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 | \$ 137,393 |
| Relief benefits | 2,911 |
| Total Benefit Services | \$ 140,304 |
| | |
| Fire Services: | |
| Equipment purchased | \$ 327,969 |
| Equipment maintenance | 85,894 |
| Training expenses | 34,941 |
| Fire prevention materials | 19,896 |
| Total Fire Services | \$ 468,700 |
| | |
| Administrative Services: | |
| Miscellaneous administrative expenses | \$ 2,583 |
| Total Administrative Services | \$ 2,583 |
| | |
| Total Investments Purchased | \$ 205,970 |
| | |
| Other Expenditures: | |
| Escheated funds * | \$ 66,937 |
| Total Other Expenditures | \$ 66,937 |

* A relief association checking account, at one of the relief association's financial institutions, was escheated to the Commonwealth of Pennsylvania Treasury Department's Unclaimed Property Division, due to inactivity. See Finding No. 4 in the Findings and Recommendations section of this report.



HERSHEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Hershey Volunteer Firefighters' Relief Association Governing Body:

Mr. Andrew Fischer, President

Mr. Edward Svirbely, Vice President

Mr. Edward Wagner, Secretary

Mr. Stephen J. Gensemer, Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Shirley Meyers, Secretary
Conewago Township

Mr. Marc Moyer, Secretary
Derry Township

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.