



**LAKE ARIEL VOLUNTEER FIREMEN'S
RELIEF ASSOCIATION**

WAYNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2011

RELEASED JANUARY 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Aaron Rossignol, President
LAKE ARIEL VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Wayne County

We have conducted a compliance audit of the Lake Ariel 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, 2011.

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 Lake Ariel 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 Lake Ariel Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Lake Ariel Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, 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 December 31, 2011, found the Lake Ariel Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the three findings contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found that while the Lake Ariel Volunteer Firefighters' Relief Association received state aid in compliance with applicable state laws, the relief association did not, in all significant respects, expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report. Therefore, the Lake Ariel Volunteer Firefighters' Relief Association will be subject to the potential withhold of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report. The results of our tests also indicated the Lake Ariel Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$80,720 and an investment balance with a fair value of \$22,281.

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

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Insufficient Surety (Fidelity) Bond Coverage

Finding No. 4 – Inappropriate Ownership of Rescue Vehicle

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

June 14, 2013

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

CONTENTS

Background	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster.....	4
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures	6
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage	8
Finding No. 4 – Inappropriate Ownership of Rescue Vehicle.....	10
Potential Withhold of State Aid.....	11
Accompanying Expenditure Information	12
Report Distribution List	13

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 Lake Ariel Volunteer Firemen's Relief Association, herein referred to as Lake Ariel 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. The Lake Ariel Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Lake Township	Wayne	\$34,747	\$39,110	\$65,426
South Canaan Township	Wayne	\$ 6,379	\$ 7,180	\$11,554

BACKGROUND (Continued)

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

Lake Ariel Fire Company

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Lake Ariel Volunteer Firefighters' Relief Association has not complied with the following 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 –
Failure to Maintain a Complete and Accurate Equipment Roster

- Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

- Noncompliance With Prior Audit Recommendation –
Insufficient Surety (Fidelity) Bond Coverage

We are concerned with the volunteer firefighters' relief association's failure to correct the previously reported audit findings. Unless the relief association's management implements the recommendations and corrective actions noted in this audit report, the Lake Ariel Volunteer Firefighters' Relief Association will be subject to the withhold of its 2014 state aid allocation, as discussed in the Potential Withhold of State Aid section of this report.

LAKE ARIEL 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 prior audit report, the relief association officials failed to maintain a complete and accurate roster of equipment owned by the relief association. While a roster was provided, it did not contain all required information. Therefore, we were unable to determine if equipment purchased by the relief association was included on the roster. Equipment purchased during the current audit period totaled \$150,079.

Criteria: Sound business practice dictates 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 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, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Furthermore, as a result of the relief association's repeated failure to maintain a complete and accurate equipment roster, the relief association will be subject to a total withholding of its 2014 state aid allocation, as discussed in the Potential Withhold of State Aid section of this report.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (CONTINUED)

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.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (CONTINUED)

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Condition: As cited in our prior audit report, the relief association, again, expended funds for items which are not authorized by Act 118, as follows:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
Multiple	Multiple	Fire company insurance	\$ 11,937
03/10/09	1130	Fire company storage trailer	1,200
08/02/10	1046	Fire company vehicle repairs	500
06/15/11	1081	Inflatable rental for fire company	1,000
12/14/11	1153	Fire company tax preparation	1,000
Total current audit period			<u>\$ 15,637</u>

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
01/16/12	1157	Fire company repair expenses	950
01/29/12	1160	Fire company trailer expense	2,000
03/27/12	1171	Fire company mailing postage	1,078
Total subsequent audit period			<u>\$ 4,028</u>

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

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

Costs associated with fire company expenses do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Even though notified of this condition during our prior audit, relief association officials, again, made expenditures that were not authorized by Act 118.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 118.

Furthermore, as a result of the relief association's continued practice of expending relief association funds to pay for the affiliated fire company's expenses, the relief association will be subject to a total withholding of its 2014 state aid allocation, as discussed in the Potential Withhold of State Aid section of this report.

However, as a result of our audit, and subsequent to the period under review, the relief association received multiple reimbursement payments from the affiliated fire company. As of December 18, 2013, the affiliated fire company reimbursed the relief association \$12,505 leaving a remaining balance of unauthorized expenditures totaling \$7,160.

Recommendation: We, again, recommend 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. We further recommend that the relief association be reimbursed \$7,160 for the remaining balance of unauthorized 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.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Insufficient Surety (Fidelity) Bond Coverage

Condition: As cited in our prior audit report, the relief association failed to 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 \$50,000; however, as of December 31, 2011, the relief association's cash assets totaled \$80,720.

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.

Cause: Even though notified of this condition during our prior audit, relief association officials, again, neglected 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 disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Furthermore, as a result of the relief association's repeated failure to maintain sufficient Surety (Fidelity) bond coverage to cover the relief association's authorized disbursing officer, the relief association will be subject to a total withholding of its 2014 state aid allocation, as discussed in the Potential Withhold of State Aid section of this report.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We, again, 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. 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 indicated they will take action to comply with the recommendation.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (CONTINUED)

Finding No. 4 – Inappropriate Ownership of Rescue Vehicle

Condition: The relief association purchased a rescue vehicle, in the amount of \$11,000, to carry personnel and safeguard equipment; however, the title for the vehicle was inappropriately issued in the name of the affiliated fire company.

Criteria: Sound business practice dictates that the relief association should maintain sole ownership of all equipment purchased by the relief association. As such, rescue vehicles purchased by the relief association are to be titled in the name of the relief association.

Cause: The relief association failed to establish adequate internal control procedures to ensure that the rescue vehicle purchased was titled in the name of the relief association.

Effect: As a result of the rescue vehicle being inappropriately titled in the name of the affiliated fire company, this relief association asset was not properly safeguarded.

Recommendation: We recommend the rescue vehicle be titled in the name of 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.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions of repeat findings such as those reported in Findings No. 1, 2 and 3 will lead to a total withholding of state aid unless those findings are corrected. However, such action will not be taken if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2011

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	\$ 37,260
Death benefits	1,500
Tokens of sympathy and goodwill	234
Total Benefit Services	<u>\$ 38,994</u>
Fire Services:	
Equipment purchased	\$ 77,211
Equipment maintenance	37,182
Training expenses	4,930
Fire prevention materials	91
Total Fire Services	<u>\$ 119,414</u>
Administrative Services:	
Miscellaneous administrative expenses	\$ 2,198
Total Administrative Services	<u>\$ 2,198</u>

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Lake Ariel Volunteer Firefighters' Relief Association Governing Body:

Mr. Aaron Rossignol, President

Mr. Tom Howe, Vice President

Ms. Alice Clauss, Secretary

Mr. Edward Sparkowski, Treasurer

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

Ms. Jennifer Wargo, Secretary
Lake Township

Ms. Cheryl A. Lewis, Secretary
South Canaan 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.