



**CITIZEN'S FIRE COMPANY OF UPPER MILFORD TOWNSHIP RELIEF  
ASSOCIATION**

**HEREIN REFERRED TO AS:**

**CITIZENS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**LEHIGH COUNTY**

**AUDIT REPORT**

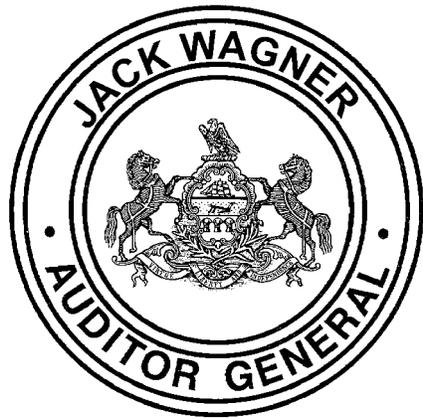
**FOR THE PERIOD**

**JANUARY 1, 2002 TO DECEMBER 31, 2005**



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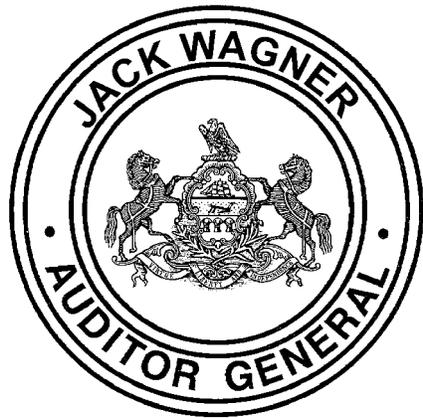
## BACKGROUND

This audit report is a public record, which must be available for examination by all interested citizens and volunteer firefighters' relief association (VFRA) members.

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.

This department conducts its audits of volunteer firefighters' relief associations in accordance with generally accepted auditing standards. Representations contained in the accompanying financial statements are the responsibility of the relief association's management. This department's responsibility for those statements is confined solely to an expression of our opinion as to the fairness of management's representation of the financial statements taken as a whole.

Act 84 requires that the relief association be governed in accordance with bylaws, which establish the association's operating procedures. Act 84 provides that the primary purpose of a relief association is to afford financial protection to volunteer firefighters against misfortunes suffered during fire service participation. To fulfill this purpose, Act 84 authorizes specific types of expenditures and outlines appropriate 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.



## Independent Auditor's Report

Mr. Kevin Kleinsmith, President  
CITIZENS VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Lehigh County

We have audited the accompanying Statement Of Monetary Assets Arising From Cash Transactions as of December 31, 2005, and the related Statement Of Cash Receipts, Disbursements, And Changes In Cash of the Citizens Volunteer Firefighters' Relief Association for the period January 1, 2002 to December 31, 2005. These financial statements are the responsibility of the relief association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Department of the Auditor General is mandated by state statute to calculate state aid provided to volunteer firefighters' relief associations and to audit volunteer firefighters' relief associations having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

**Independent Auditor's Report** (Continued)

As described in Note 2, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the monetary assets arising from cash transactions of the Citizens Volunteer Firefighters' Relief Association as of December 31, 2005, and the cash receipts, disbursements, and changes in cash for the period January 1, 2002 to December 31, 2005, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2006, on our consideration of the Citizens Volunteer Firefighters' Relief Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

February 15, 2006

JACK WAGNER  
Auditor General

CITIZENS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATEMENT OF MONETARY ASSETS ARISING FROM CASH TRANSACTIONS  
DECEMBER 31, 2005

ASSETS:

Cash (note 3)	<u>\$ 9,671</u>
Total Monetary Assets	<u>\$ 9,671</u>

Notes to financial statements are an integral part of this report.

CITIZENS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH  
FOR THE PERIOD JANUARY 1, 2002 TO DECEMBER 31, 2005

RECEIPTS:

Support:		
State aid (note 4)	\$	100,842
Contribution		11,127
Other Receipts:		
Interest income		279
Insurance claim		483
Proceeds from equipment sold		4,092
Reimbursements		<u>4,720</u>
Total Receipts		<u>121,543</u>

DISBURSEMENTS:

Fire Services:		
Equipment purchased		46,451
Equipment maintenance		21,915
Training expenses		3,030
Benefit Services:		
Insurance premiums		26,885
Relief benefits		576
Administrative Services:		
Office equipment and supplies		1,417
Bank service fees		75
Other Disbursements:		
Principal payments on equipment finance agreement (note 5)		23,003
Interest payments on equipment finance agreement (note 5)		<u>9,270</u>
Total Disbursements		<u>132,622</u>
Net Increase or (Decrease) In Cash	(	11,079)
Cash Balance, January 1		<u>20,750</u>
Cash Balance, December 31	\$	<u><u>9,671</u></u>

Notes to financial statements are an integral part of this report.

CITIZENS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION

Pursuant to the Act of June 11, 1968, (P.L. 149, No. 84), as amended, the Citizens Volunteer Firefighters' Relief Association is a charitable organization that was formed to afford financial protection to volunteer firefighters and to encourage individuals within the community to participate in volunteer fire service.

Act 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws regulate the specific procedures by which the association assets are managed.

The Citizens Volunteer Firefighters' Relief Association is affiliated with the Citizen's Fire Company of Upper Milford Township.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The relief association's records are maintained on a cash basis, and the statement of cash receipts and disbursements reflect only cash received and disbursed. Therefore, receivables and payables, long-lived assets, accrued income and expenses, and depreciation, which would otherwise be recognized under accounting principles generally accepted in the United States of America (GAAP) and which may be material in amount, are not recognized in the accompanying financial statements.
- B. Fixed assets are recognized as expenditures at the time of purchase, rather than being capitalized and depreciated over their estimated useful lives.
- C. The relief association did not adopt Statement of Financial Accounting Standard (SFAS) No. 117 since they do not follow GAAP.
- D. The nature of the relief association's monetary assets is considered to be unrestricted.

3. CASH

Cash consisted of the following at December 31, 2005:

Checking account	\$ 9,671
Total Cash	<u>\$ 9,671</u>

CITIZENS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS

4. STATE AID

Chapter 7 of the Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 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 relief association of the fire department or departments, which is or are recognized as providing service to the municipality.

During the years 2002, 2003, 2004, and 2005, the Citizens Volunteer Firefighters' Relief Association received state aid from Upper Milford Township in Lehigh County.

5. EQUIPMENT FINANCE AGREEMENT

On November 12, 2002, the Citizens Fire Company of Upper Milford Township entered into a \$41,952 equipment finance agreement with the Kansas State Bank. The equipment finance agreement was for the purchase of air packs. The relief association and the fire company signed an agreement whereby the relief association assumed the obligation of the equipment finance agreement, and in return, the relief association obtained ownership rights to the air packs financed under the agreement. The agreement has an interest rate of 8.90 percent and calls for annual payments of \$10,758, beginning on November 14, 2003. The balance due on the agreement at December 31, 2005, was \$18,949.

6. RELATED PARTY SITUATIONS

A related party situation exists because the volunteer firefighters' relief association is affiliated with the fire service organization disclosed in Note 1. The relief association is a distinct separate legal entity that was established primarily for the purpose of affording financial protection to the volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service.

Another related party situation exists because certain officers of the relief association hold offices in the fire service organization.

The relief association membership is aware of these situations and all transactions are approved by the relief association membership.

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

Mr. Kevin Kleinsmith, President  
CITIZENS VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Lehigh County

We have audited the financial statements (cash basis) of the Citizens Volunteer Firefighters' Relief Association as of December 31, 2005, and for the period January 1, 2002 to December 31, 2005, and have issued our report thereon dated February 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Department of the Auditor General is mandated by state statute to calculate state aid provided to volunteer firefighters' relief associations and to audit volunteer firefighters' relief associations having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Citizens Volunteer Firefighters' Relief Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards* (Continued)**

financial reporting that, in our judgement, could adversely affect Citizens Volunteer Firefighters' Relief Association's ability to record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the following findings:

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by association officers in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that both of the reportable conditions described in Finding Nos. 1 and 2 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Citizens Volunteer Firefighters' Relief Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the following finding:

Finding No. 1 – Undocumented Expenditures

We also noted a certain immaterial instance of noncompliance that we have reported to the management of Citizens Volunteer Firefighters' Relief Association through Finding No. 3 contained in this report.

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards* (Continued)**

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

This report is intended solely for the information and use of the relief association's members and management, and the officials of the municipalities that grant the foreign fire insurance tax monies to the volunteer firefighters' relief association. It is not intended to be and should not be used by anyone other than these specified parties.

February 15, 2006

JACK WAGNER  
Auditor General

CITIZENS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: As cited in the prior audit report, the relief association was unable to provide adequate supporting documentation for the following expenditures:

Date	Check No.	Amount
04/05/99	1176	\$ 79
04/13/99	1178	150
		Total \$ 229

In addition, the relief association was unable to provide adequate supporting documentation for a \$300 expenditure that was paid on October 19, 2004.

Criteria: Act 84 at 53 P.S. § 8507(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 any money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No 205), known as the "Municipal Pension Plan Funding Standard and Recovery Act," as amended, as far as may be necessary to satisfy the department that the money received was expended or is being expended for no purpose other than that authorized by this act.

Without adequate supporting documentation, such as invoices, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: While notified of this condition in the prior audit report, relief association officials failed to establish adequate internal control procedures to ensure supporting documentation for all expenditures was maintained.

Effect: Lack of supporting documentation, such as invoices and training certificates, made it impossible to determine the expenditures were made in accordance with Act 84 at 53 P.S. § 8506(e).

However, subsequent to the period under review, on March 8, 2006, the relief association was reimbursed in full for the undocumented expenditures identified above.

CITIZENS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the relief association officials maintain supporting documentation for all 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 and indicated they will take action to comply with the recommendation.

CITIZENS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the prior audit report, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While a roster was maintained, it was incomplete since several items purchased during the current audit period were not recorded. Furthermore, there was no indication that physical inventories were conducted and the roster was not adequately updated to reflect sold or obsolete equipment.

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 roster of all relief association equipment should include the following:

- Type of equipment purchased.
- Date of purchase.
- Unit cost.
- Serial number, if applicable.
- Current location of item.
- Final disposition of sold or damaged equipment.
- Notation of the annual inventory.

Cause: While notified of this condition in the prior audit report, relief association officials failed to establish adequate internal control procedures over fixed assets to include the maintenance of a cumulative equipment roster and the performance of an annual equipment inventory.

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 prevents adequate accountability and safeguarding of relief association assets.

Recommendation: We again recommend the relief association officials maintain a cumulative roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual inventory of all operable equipment and that 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.

CITIZENS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Unauthorized Expenditures

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

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
07/07/03	1426	Fire company officer's bond premium	\$ 233
12/16/03	1462	Firehouse siren repair	145
Total			<u>\$ 378</u>

Criteria: Act 84 at 53 P.S. § 8506(e)(1) states:

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

To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of its affairs including legal fees and including but not by way of limitation the rental or purchase of offices, the payment of reasonable compensation of any needed employees, and the purchase of office equipment and supplies.

The primary purpose of the fire company officer's bond premium is to protect the assets of the fire company, not of the relief association; consequently, it is not considered an authorized expenditure as defined by Act 84.

Furthermore, Act 84 at 53 P.S. § 8506(e)(11) states:

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

To purchase safeguards for preserving life, health, and safety to volunteer firefighters, so as to ensure their availability to participate in the volunteer fire service.

The primary purpose of the firehouse siren is not to protect the volunteer firefighters; consequently, the repairs made to the siren are not considered authorized expenditures as defined by Act 84.

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

CITIZENS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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 84.

However, subsequent to the period under review, on March 8, 2006, the relief association was reimbursed in full for the unauthorized expenditures.

Recommendation: We recommend that the 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 and indicated they will take action to comply with the recommendation.

CITIZENS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Citizens Volunteer Firefighters' Relief Association Officers:

Mr. Kevin Kleinsmith, President

Mr. Jerry Schantz, Secretary

Ms. Jennifer Heiserman, Treasurer

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

Ms. Kimberly Shaak, Secretary  
Upper Milford 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](http://www.auditorgen.state.pa.us).