



**DELAWARE VALLEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION**

**HEREIN REFERRED TO AS:**

**DELAWARE VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**BUCKS COUNTY**

**AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2003 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. Robert Furlong, President  
DELAWARE VALLEY VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
Bucks County

We exercised our authority, mandated by state statute, to audit 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 Delaware Valley Volunteer Firefighters' Relief Association, for the period January 1, 2003 to December 31, 2005. These financial statements are the responsibility of the relief association's management.

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 of America. 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 Delaware Valley Volunteer Firefighters' Relief Association as of December 31, 2005, and the cash receipts, disbursements, and changes in cash for the period January 1, 2003 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 March 24, 2006, on our consideration of the Delaware Valley 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

March 24, 2006

JACK WAGNER  
Auditor General



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

ASSETS:

Cash (note 3)	<u>\$ 9,074</u>
Total Monetary Assets	<u>\$ 9,074</u>

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

DELAWARE VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH  
 FOR THE PERIOD JANUARY 1, 2003 TO DECEMBER 31, 2005

RECEIPTS:

Support:		
State aid (note 4)	\$	68,722
Other Receipts:		
Investments sold		35,190
Interest income		1,129
		<hr/>
Total Receipts		<u>105,041</u>

DISBURSEMENTS:

Fire Services:		
Equipment purchased		63,022
Equipment maintenance		3,991
Benefit Services:		
Insurance premiums		8,796
Administrative Services:		
Bank service fees		56
Other Disbursements:		
Investments purchased		24,960
Disbursement to the fire company's financial institution		10,230
		<hr/>
Total Disbursements		<u>111,055</u>
Net Increase or (Decrease) In Cash	(	6,014)
Cash Balance, January 1		<u>15,088</u>
Cash Balance, December 31	\$	<u><u>9,074</u></u>

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

DELAWARE VALLEY 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 Delaware Valley 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 Delaware Valley Volunteer Firefighters' Relief Association is affiliated with Delaware Valley Volunteer Fire Company.

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	\$ <u>9,074</u>
Total Cash	\$ <u><u>9,074</u></u>

DELAWARE VALLEY 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 2003, 2004, and 2005, the Delaware Valley Volunteer Firefighters' Relief Association received state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>
Nockamixon Township	Bucks
Tinicum Township	Bucks

5. 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 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 Compliance And On Internal Control Over Financial Reporting  
Based On An Engagement To Audit Financial Statements Performed In Accordance With  
*Government Auditing Standards***

Mr. Robert Furlong, President  
DELAWARE VALLEY VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
Bucks County

We have audited the financial statements (cash basis) of the Delaware Valley Volunteer Firefighters' Relief Association as of December 31, 2005 and for the period January 1, 2003 to December 31, 2005, and have issued our report thereon dated March 24, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

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*.

Compliance

As part of obtaining reasonable assurance about whether Delaware Valley 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the following findings:

**Report On Compliance And On Internal Control Over Financial Reporting  
Based On An Audit Of Financial Statements Performed In Accordance With  
*Government Auditing Standards* (Continued)**

Finding No. 1 – Undocumented Expenditure

Finding No. 2 – Improper Loan

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Inadequate Signatory Authority For The Disbursement Of Funds

Finding No. 4 – Noncompliance With Prior Audit Recommendation –  
Failure To Obtain A Federal Tax Identification Number

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Delaware Valley 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 assurance 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 financial reporting that, in our judgement, could adversely affect Delaware Valley Volunteer Firefighters' Relief Association's ability to record, process, summarize, 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 Expenditure

Finding No. 2 – Improper Loan

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Inadequate Signatory Authority For The Disbursement Of Funds

A material weakness is a 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 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 each of the reportable conditions described above is a material weakness.

**Report On Compliance And On Internal Control Over Financial Reporting  
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 previously reported audit findings. 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.

March 24, 2006

JACK WAGNER  
Auditor General

DELAWARE VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditure that was paid directly to the vice-president of the relief association:

Date	Check No.	Amount
03/12/04	113	\$ 16,000
Total		\$ 16,000

We were informed by relief association management that the \$16,000 disbursement noted above was made to repay the vice-president who had personally advanced the same amount of funds to a vendor in order to assist the fire company in acquiring a vehicle. At the time of the audit, the relief association did not have any documentation to support this \$16,000 disbursement.

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: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices and detailed minutes of meetings, made it impossible to determine the expenditure was made in accordance with Act 84 at 53 P.S. § 8506(e).



DELAWARE VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

However, subsequent to the audit exit conference, on May 25, 2006, the relief association entered into a written agreement with the fire company stating that if the vehicle, for which the above expenditure was made, is ever sold that a prorated share of the proceeds shall revert to the relief association.

Recommendation: We recommend 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 at the audit exit conference and indicated they will take action to comply with the recommendation.

DELAWARE VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Improper Loan

Condition: As cited in the prior audit report, the relief association made an unsecured loan to the Delaware Valley Volunteer Fire Company in the amount of \$20,460, but only distributed one half of the \$20,460 (\$10,230). In addition to being unsecured, the loan made in the prior financial period did not require a minimum interest rate of 3% and only one signature was used to execute the loan agreement, although two signatures are required. During the current financial period, the relief association disbursed \$35,190 consisting of the \$10,230 from the original agreement and an additional \$24,960, but did not amend the original loan agreement to document the new amounts, terms, and security, nor did they prepare amortization schedules to define specific repayment schedules. The relief association did receive partial payments from the fire company during the current financial period totaling \$36,248 (\$35,190 principal and \$1,058 interest), but the relief association still had not entered into a formal loan agreement or obtained collateral for the outstanding loan balance.

This \$10,230 outstanding balance due to the relief association remained undocumented and unsecured as of the date of this report.

Criteria: Act 84 at 53 P.S. § 8506(c)(3) requires that loans be:

. . . secured by assets of the [fire] company having capital value equal to at least one hundred fifty percent of the amount of the obligation at the time it is made, and is subject to provisions which will amortize such loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least equal to one hundred fifty percent of the balance remaining due.

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

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required in order to bind the association by formal contract or to issue any negotiable instrument.

Cause: While notified of this condition in the prior audit report, relief association officials neglected to secure the loan to the fire company to ensure compliance with Act 84 provisions. In addition, the relief association failed to document the additional amount loaned.

Effect: The failure to properly document the loan and obtain adequate security for the loan placed the investment at greater risk.

DELAWARE VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

However, subsequent to the audit exit conference, on June 12, 2006, the relief association received reimbursement in the amount of \$10,230 for the outstanding balance due to the relief association.

Recommendation: We recommend that, for all future loans, the relief association prepare a written loan agreement signed by both parties which specifies the collateral, interest rate, and payment schedule. We also recommend that the relief association prepare an amortization schedule and timely collect all payments due. 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.

DELAWARE VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Inadequate Signatory Authority For The Disbursement Of Funds

Condition: As cited in the prior audit report, the signature of only one relief association officer was used to disburse funds from the relief association's checking account, although the signatures of at least two relief association officers are required. During the current financial period, the signature of only one officer was used to disburse nine checks from the relief association's checking account.

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

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required in order to bind the association by formal contract or to issue any negotiable instrument.

Cause: While notified of this condition in the prior audit report, relief association officials neglected the Act 84 provision, which requires the signatures of at least two officers for the disbursement of funds.

Effect: As a result of the relief association not obtaining two signatures for all disbursements, assets were placed at greater risk of misappropriation.

Recommendation: We again recommend the relief association officials adopt procedures which would require the signatures of at least two officers on all relief association negotiable instruments, 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.

DELAWARE VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Noncompliance With Prior Audit Recommendation –  
Failure To Obtain A Federal Tax Identification Number

Condition: As cited in two prior audit reports, the volunteer firefighters' relief association failed to comply with the Tax Equity and Fiscal Responsibility Act by not obtaining a federal tax identification number.

Criteria: All businesses, both profit and nonprofit, are required to obtain a federal tax identification number and provide this number to any financial institution where funds are earning interest. If their tax identification number is not provided, the financial institution is required to withhold 31 percent of interest earned and transmit these funds to the Internal Revenue Service, representing federal income taxes.

Cause: While notified of this condition in two prior audit reports, the relief association neglected to take the appropriate steps in order to procure its own federal tax identification number.

Effect: Failure to comply with the Tax Equity and Fiscal Responsibility Act could cause the relief association to be penalized by the Internal Revenue Service, resulting in the loss of funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We again recommend the relief association immediately apply for its own federal tax identification number through the Internal Revenue Service, and furnish this number to its financial institutions. The relief association should also consider applying to the Internal Revenue Service for tax exempt status as a nonprofit corporation under Internal Revenue Code 501(c). 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.

DELAWARE VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
COMMENT

PRIOR AUDIT RECOMMENDATION

Unauthorized Expenditure

The relief association has complied with the prior audit recommendation, subsequent to the period under review, on April 11, 2006, by receiving reimbursement of \$1,500 for the unauthorized expenditure made in the prior financial period.

DELAWARE VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Delaware Valley Volunteer Firefighters' Relief Association Officers:

Mr. Robert Furlong, President

Ms. Joann Hamilton, Secretary

Mr. Hal C. Lauble, Treasurer

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

Ms. Catherine M. Gorman, Secretary  
Nockamixon Township

Ms. Linda McNeill, Secretary  
Tinicum 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).