



**THE GRATZ AREA FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA**

**HEREIN REFERRED TO AS:**

**GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**DAUPHIN COUNTY**

**AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2003 TO DECEMBER 31, 2005**



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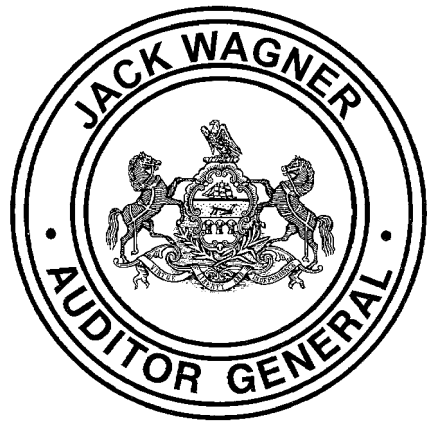
## BACKGROUND

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. Bruce Koppenhauer, President  
GRATZ VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Dauphin 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 Gratz 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. 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 Gratz 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 June 27, 2006, on our consideration of the Gratz 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.

June 27, 2006

JACK WAGNER  
Auditor General



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

ASSETS:

Cash (note 3)	<u>\$ 13,215</u>
Total Monetary Assets	<u>\$ 13,215</u>

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

GRATZ 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)	\$	33,585
Other Receipts:		
Interest income		124
Proceeds from bank loan (note 5)		<u>15,000</u>
Total Receipts		<u>48,709</u>

DISBURSEMENTS:

Fire Services:		
Equipment purchased		24,132
Equipment maintenance		2,060
Training expenses		450
Benefit Services:		
Insurance premiums		5,530
Tokens of sympathy and goodwill		957
Administrative Services:		
Office equipment and supplies		21
Bank service fees		5
Other Disbursements:		
Principal payments on loan (note 5)		13,413
Interest payments on loan (note 5)		<u>1,424</u>
Total Disbursements		<u>47,992</u>

Net Increase or (Decrease) In Cash		717
Cash Balance, January 1		<u>12,498</u>
Cash Balance, December 31	\$	<u><u>13,215</u></u>

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

GRATZ 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 Gratz 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 Gratz Volunteer Firefighters' Relief Association is affiliated with the Gratz Area Fire Company No. 1.

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	\$ 13,215
Total Cash	<u>\$ 13,215</u>

GRATZ 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 Gratz Volunteer Firefighters' Relief Association received state aid from the following municipalities:

Municipality	County
Gratz Borough	Dauphin
Lykens Township	Dauphin

5. LIABILITY

On March 5, 2003, the relief association borrowed \$15,000 from The Gratz National Bank to contribute toward the fire company's purchase of a fire apparatus. This loan has an interest rate of 6.25 percent and matures on March 4, 2008. The outstanding principal balance as of December 31, 2005, was \$1,587.

The liability was not disclosed in the Statement of Monetary Assets Arising From Cash Transactions since the relief association utilized the cash receipts/cash disbursements basis of accounting.

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 an officer of the relief association holds an office 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. Bruce Koppenhauer, President  
GRATZ VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Dauphin County

We have audited the financial statements (cash basis) of the Gratz 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 June 27, 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 Gratz 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 Gratz 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 – Duplicate Payment

Finding No. 3 – Overpayment of Equipment Purchased

Finding No. 4 – 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 consider the reportable conditions described in Finding Nos. 1, 2, 3, and 4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gratz 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 that is required to be reported under *Government Auditing Standards* and which is described in the following finding:

Finding No. 1 – Undocumented Expenditures

**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)**

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.

June 27, 2006

JACK WAGNER  
Auditor General

GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for check number 1189 in the amount of \$270 issued on July 28, 2003, and check number 1192 in the amount of \$180 issued on August 13, 2003.

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 relief association meetings, made it impossible to determine the expenditures were made in accordance with Act 84 at 53 P.S. § 8506(e).

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices, to determine the validity of the expenditures or that the relief association be reimbursed \$450 for the undocumented expenditures. We also 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 at the audit exit conference and indicated they will take action to comply with the recommendation.



GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Duplicate Payment

Condition: On June 14, 2004, the relief association expended \$1,131 for boots, hoods, gloves, and suspenders. On June 26, 2004, the relief association erroneously made a duplicate payment for the same items. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices.

Cause: The volunteer firefighters' relief association failed to establish internal control procedures that would require that all invoices or other billing documents be canceled or otherwise effectively marked to prevent duplicate payments.

Effect: As a result of this erroneous payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

However, on September 25, 2006, the relief had received a reimbursement of the \$1,131 for the duplicate expenditure.

Recommendation: We recommend that the relief association establish accounting and internal control procedures to monitor future relief association 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.

GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Overpayment of Equipment Purchased

Condition: On May 8, 2005, the relief association overpaid invoices for the purchase of a female adapter and a rocker lug for a male adapter. The total price of the two invoices was \$263; however, the relief association erroneously disbursed \$363 for this equipment. As such, the \$100 overpayment is considered an unauthorized expenditure.

Criteria: Adequate accounting and internal controls should include procedures to prevent the overpayment of expenses.

Cause: The volunteer firefighters' relief association failed to establish internal control procedures that would prevent overpayment of expenses.

Effect: As a result of the erroneous overpayment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

However, on September 25, 2006, the relief association had received a reimbursement of \$100 for the above overpayment.

Recommendation: We recommend that the relief association establish sufficient accounting and internal control procedures to monitor future association 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.

GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While a roster was maintained for equipment purchased dating back to 1991, it was incomplete. No equipment purchases since November 25, 2002 have been recorded in the roster. Furthermore, there was no indication that annual inventories of equipment were conducted.

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: 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. Furthermore, the failure to perform an equipment inventory prevents officials from adequately accounting for and safeguarding of the relief association's fixed assets.

Recommendation: We 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.



GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Gratz Volunteer Firefighters' Relief Association Officers:

Mr. Bruce Koppenhauer, President

Ms. Debra Trautman, Secretary

Mr. Douglas Schade, Treasurer

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

Ms. Cindy Shade, Secretary  
Gratz Borough

Ms. Jean M. Deppen, Secretary  
Lykens 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).