



THE RELIEF ASSOCIATION OF THE KUTZTOWN FIRE COMPANY NO. 1

HEREIN REFERRED TO AS:

KUTZTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005 TO DECEMBER 31, 2007



CONTENTS

| | |
|---|---|
| Background..... | 1 |
| Letter From the Auditor General | 3 |
| Finding and Recommendation: | |
| Finding – Failure to Define Discretionary Benefits..... | 5 |
| Accompanying Expenditure Information | 6 |
| Report Distribution List..... | 7 |



BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended 53 P.S. § 895.701 et seq. (commonly referred to as Act 205), are properly expended.

The Kutztown Volunteer Firefighters' Relief Association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations, which is or are recognized as providing the service to the municipality. The Kutztown Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

| <u>Municipality</u> | <u>County</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---------------------|---------------|-------------|-------------|-------------|
| Greenwich Township | Berks | \$ 8,022 | \$ 8,153 | \$ 8,201 |
| Kutztown Borough | Berks | \$29,714 | \$30,052 | \$30,917 |
| Maxatawny Township | Berks | \$23,163 | \$23,636 | \$24,029 |

BACKGROUND (Continued)

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

Kutztown Fire Company No. 1

Mr. Carl F. Wuchter, President
KUTZTOWN VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Berks County

We have conducted a compliance audit of the Kutztown Volunteer Firefighters' Relief Association pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2005 to December 31, 2007. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

The objective of the audit was to determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Kutztown Volunteer Firefighters' Relief Association's administration of state aid and accumulated funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objective. We also tested transactions, confirmed the Kutztown Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2007, with the custodians of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objective.

The results of our audit for the period January 1, 2005 to December 31, 2007, found, in all significant respects, the Kutztown Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following finding discussed later in this report. The results of our tests indicated the Kutztown Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$42,620 and an investment balance with a fair value of \$155,022.

Finding – Failure to Define Discretionary Benefits

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

April 18, 2008

JACK WAGNER
Auditor General

KUTZTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Failure to Define Discretionary Benefits

Condition: The relief association did not formally define and approve discretionary benefits that were being offered to the officers of the relief association. During the current audit period, the relief association paid \$2,400 in discretionary benefits to relief association officers' as compensation. Although these expenditures for officers' compensation were authorized by Act 84, the amounts offered to the various officers were not described in a formal policy approved by the relief association membership.

Criteria: Prudent business practice dictates that when a relief association offers discretionary compensation, such as officer compensation, or any other type of discretionary benefit provided by Act 84, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal relief association policy, or in the official meeting minutes. The formal approval is necessary to clarify the amounts of benefits offered to the relief association officers.

Cause: Relief association officials were not aware of the specific stipulations of Act 84 and did not perceive the formal approval to be an essential internal control in safeguarding relief association assets. As a result, they failed to establish procedures to formally define the benefits and related criteria for the benefits offered to the officers.

Effect: The relief association's failure to formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the relief association.

Recommendation: We recommend relief association officials formally define and document the criteria of the discretionary benefits being offered to the relief association officers. The formal approval of benefits and related criteria should be documented in the bylaws, a policy statement, or in the official meeting minutes, and should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered. Furthermore, all approved discretionary benefits should be in accordance with provisions of 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.

KUTZTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2007

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

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

Act 84 at 53 P.S. § 8506, authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds. All expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

| | |
|-------------------------------|------------|
| Benefit Services: | |
| Insurance premiums | \$ 2,946 |
| Death benefits | 500 |
| Total Benefit Services | \$ 3,446 |
| | |
| Fire Services: | |
| Equipment purchased | \$ 264,531 |
| Equipment maintenance | 22,888 |
| Training expenses | 4,233 |
| Total Fire Services | \$ 291,652 |
| | |
| Administrative Services: | |
| Officer compensation | \$ 2,400 |
| Other administrative expenses | 319 |
| Total Administrative Services | \$ 2,719 |
| | |
| Total Investments Purchased | \$ 50,743 |

KUTZTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Kutztown Volunteer Firefighters' Relief Association Officers:

Mr. Carl F. Wuchter, President

Mr. Charles W. Leibensperger, Secretary

Ms. Leann M. Hauck, Treasurer

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

Ms. Laurie A. Baker, Secretary
Greenwich Township

Ms. Bonnie Bray, Secretary
Kutztown Borough

Mr. K. Ray Stauffer, Secretary
Maxatawny 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.