



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

DAUPHIN COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2012

RELEASED JUNE 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Randy Boyer, President
GRATZ VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Dauphin County

We have conducted a compliance audit of the Gratz 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, 2012.

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 Gratz 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 Gratz Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Gratz Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2012, 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, 2012, found the Gratz Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the Gratz Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Gratz Volunteer Firefighters' Relief Association, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed later in this report. The results of our tests also indicated the Gratz Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$26,040 and an investment balance with a fair value of \$8,275.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

Finding No. 2 – Unauthorized Expenditure

Finding No. 3 – Failure to Maintain a Complete and Accurate
Equipment Roster

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

March 21, 2014

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

EUGENE A. DEPASQUALE
Auditor General

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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 Gratz Area Firemen's Relief Association of the State of Pennsylvania, herein referred to as Gratz 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.

BACKGROUND – (CONTIINUED)

The Gratz 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>	<u>2012</u>
Gratz Borough	Dauphin	\$3,870	\$4,356	\$ 7,197	\$4,080
Lykens Borough	Dauphin	\$7,367	\$8,292	\$15,535	\$8,836

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

Gratz Area Fire Company #1

GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Gratz Volunteer Firefighters' Relief Association has complied with one of the two prior audit findings and recommendations, as follows:

- Untimely Deposit of State Aid

By ensuring that the allocations of state aid were received and deposited in a timely manner during the current audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Gratz Volunteer Firefighters' Relief Association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws

We are concerned with the volunteer firefighters' relief association's failure to correct the previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

Condition: As cited in our prior audit report, the existing bylaws of the Gratz Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not address:

- The voting rights of the different classes of members.
- The quorum requirements for regular and special meetings.
- The procedure to be followed in nominating and electing of directors.
- Procedures for the approval and payment of expenditures and for the investment of funds and the sale of investments.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(1, 2, 5, and 6) states, that the relief association's bylaws shall:

- (1) Specify the requirements for securing membership, voting rights of different classes of members, if there be different classes, and conditions under which membership may be terminated.
- (2) State the notice requirements and procedure to be followed in calling meetings, as well as quorum requirements for regular and special meetings of the membership and for regular and special meetings of the body which governs the operations of the association between membership meetings, and shall designate that body, whether it be a board of directors, trustees or any similar body such as an executive committee. Unless otherwise provided for in the bylaws, powers and duties of officers, directors and trustees shall be those which normally pertain to such positions in nonprofit corporations.
- (5) State the procedure to be followed in nominating and in electing officers, trustees, directors, and members of the executive committee, according to the provisions which have been made for establishment of those positions.
- (6) Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.

GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 1 – (Continued)

Furthermore, the relief association bylaws should authorize and clearly specify the criteria to be met before receiving death or relief benefits and the amount of any benefit payments. In addition, the bylaws should address the authorization of compensation to relief association officers.

Cause: Even though notified of this condition during our prior audit, relief association officials again, neglected to amend the relief association bylaws to meet the bylaw provisions required by Act 118.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We again recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

Finding No. 2 – Unauthorized Expenditure

Condition: The relief association expended \$600 for 30 gift cards during the current audit period which is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(11) states:

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

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – (Continued):

Costs associated with the purchase of gift cards do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials had purchased these gift cards for each member to purchase personal rescue tools. However, relief association officials were unable to verify if these gift cards were actually used to purchase these personal rescue tools. The relief association was unaware that the expenditure for the gift cards was not authorized by Act 118.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

Recommendation: We 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. 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 subsequent to the audit period, on December 10, 2013, the relief association received reimbursement from the fire company in the amount of \$600.

Auditor's Conclusion: It appears the relief association complied with our finding recommendation. Compliance will be subject to verification through our next audit.

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association did not maintain a complete and accurate roster of equipment owned by the relief association. Specifically, the relief association officials purchased \$34,447 of equipment during the current audit period, and there was no equipment roster created or maintained for these purchases. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all of the relief association's owned equipment.

GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – (Continued):

Criteria: Prudent 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: Relief association officials failed 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.

Recommendation: We 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2012

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	\$ 6,885
Fire Services:	
Equipment purchased	\$ 34,447
Equipment maintenance	5,161
Training expenses	615
Total Fire Services	\$ 40,223
Administrative Services:	
Other administrative expenses	\$ 25

GRATZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Gratz Volunteer Firefighters' Relief Association Governing Body:

Mr. Randy Boyer	President
Mr. Amos King	Vice President
Ms. Debra Trautman	Secretary
Mr. John Zook	Treasurer

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

Ms. Cindy Shade, Secretary Gratz Borough	Ms. Jeanette M. Crabb, Secretary Lykens Borough
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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.