



THE MAUCH CHUNK FIREMEN'S RELIEF ASSOCIATION
OF JIM THORPE

CARBON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010 TO DECEMBER 31, 2012

RELEASED APRIL 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
AUDITOR GENERAL

Francis Lukasevich, President
MAUCH CHUNK VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Carbon County

We have conducted a compliance audit of the Mauch Chunk 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, 2010 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 finding 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 Mauch Chunk 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 Mauch Chunk Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Mauch Chunk 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, 2010 to December 31, 2012, found the Mauch Chunk Volunteer Firefighters' Relief Association took appropriate corrective action to address the finding contained in our prior audit report and, 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. The results of our tests also indicated the Mauch Chunk Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance with a face value of \$33,920 and an investment balance reported at \$199,540. However, a scope limitation on our audit exists, as detailed in the Observation section of this report. We were not able to confirm \$160,040 of the relief association's reported investment balance.

The contents of this report were discussed with the management of the Mauch Chunk Volunteer Firefighters' Relief Association.

October 22, 2013



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 Mauch Chunk Firemen's Relief Association of Jim Thorpe, herein referred to as Mauch Chunk 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. The Mauch Chunk Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Jim Thorpe Borough	Carbon	\$19,921	\$30,247	\$17,190

BACKGROUND (Continued)

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

Diligent Fire Company No. 3
Phoenix Hose Company No. 2

MAUCH CHUNK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Mauch Chunk Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Failure to Disclose Related Party Transactions

By adopting internal control procedures to ensure that any related party situation and/or transaction is voted on by the membership and documented in the minutes of the meeting.

We commend the relief association management for its efforts in complying with the finding and recommendation contained in the prior audit report. The association management should strive to remain in compliance with all applicable state laws, contracts, bylaws and administrative procedures.

MAUCH CHUNK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Scope Limitation

The Mauch Chunk Volunteer Firefighters' Relief Association (VFRA) investment balance reported as \$199,540, as of December 31, 2012, could not be confirmed in its entirety. While we received confirmations from two financial institutions confirming \$39,500 of the relief association's total reported investment balance, the remaining balance of \$160,040 was not confirmed by one of the financial institutions. Two separate requests for an independent confirmation of this mutual fund's account balance were made on June 18, 2013, and July 23, 2013, respectively. While the VFRA provided a December 31, 2012, financial institution account statement detailing this mutual fund account balance, the financial institution failed to provide an independent confirmation of this mutual fund's account balance reported at \$160,040, as of such date.

Act 118 at 35 Pa.C.S. § 7418(a) states, in part, that the Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association . . . as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Generally Accepted Government Auditing Standards (GAGAS) Section No. 6.56 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 6.61(f) states, "Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity."

Statement of Auditing Standards (SAS) No. 106 requires auditors to request independent confirmations of investment balances directly from the financial institution from which the VFRA purchased the investment.

Even though we made several requests, confirmation of \$160,040 of the VFRA's total reported investment balance of \$199,540, was not provided by the financial institution.

Our inability to confirm the VFRA's total investment balance constitutes a scope limitation on our audit, as this scope limitation prevented us from determining the fair value of the VFRA's total investment balance reported at \$199,540, as of December 31, 2012.

MAUCH CHUNK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2010 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	\$ 8,445
Total Benefit Services	\$ 8,445
Fire Services:	
Equipment purchased	\$ 24,694
Equipment maintenance	978
Fire prevention materials	1,138
Total Fire Services	\$ 26,810
Administrative Services:	
Officer compensation	\$ 1,650
Other administrative expenses	590
Total Administrative Services	\$ 2,240
Total Investments Purchased:	\$ 10,000

MAUCH CHUNK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Mauch Chunk Volunteer Firefighters' Relief Association Governing Body:

Mr. Francis Lukasevich, President

Mr. Joseph Steber, Sr., Vice President

Mr. William H. Diehm, Secretary

Mr. Jay Miller, Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Louise McClafferty, Secretary
Jim Thorpe Borough

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.