



**VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
OF BEAR LAKE FIRE DEPARTMENT,
WARREN COUNTY, BEAR LAKE, PA**

WARREN COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2011

JULY 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. James Snow, President
BEAR LAKE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Warren County

We have conducted a compliance audit of the Bear Lake 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, 2011.

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 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 Bear Lake 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 Bear Lake Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Bear Lake Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, 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, 2011, found the Bear Lake Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the Bear Lake 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 Bear Lake Volunteer Firefighters' Relief Association did not, in all significant respects, receive and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the finding listed below and discussed in detail in the Finding and Recommendation and Background sections of this report. The results of our tests also indicated the Bear Lake Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$6,919 and no investments.

Finding – Noncompliance With Prior Audit Recommendation –
Insufficient Surety (Fidelity) Bond Coverage

The contents of this report were discussed with the management of the Bear Lake Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

May 17, 2012, except for the
Background Section, for which
the date is May 16, 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 Volunteer Fireman's Relief Association of Bear Lake Fire Department, Warren County, Bear Lake, PA, herein referred to as Bear Lake 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 (Continued)

The Bear Lake 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>
Bear Lake Borough	Warren	\$ 761	*	*
Freehold Township	Warren	\$3,024	\$3,404	\$5,525

- * The foreign fire insurance tax allocations of \$857 and \$1,132 were distributed to the Bear Lake Borough (municipality) municipal treasurer in September 2010 and September 2011, respectively. According to officials of the Pennsylvania Treasurer's Office (Treasury), the municipality attempted to cash the 2010 distribution but, at the time of the attempt, the check was stale-dated (more than 180 days old). According to the same Treasury officials, the 2010 state aid was subsequently escheated. Treasury officials also provided evidence that the 2011 distribution was cashed by the municipality on October 5, 2011. As of the date of this report, the municipality has not certified receipt of the 2011 distribution, nor forwarded the 2011 state aid to a relief association, as required by Section 706(b)(2) of the Act of December 18, 1984, (P.O. 1005, No. 205). Historically, the total state aid distributed to Bear Lake Borough has been entirely allocated to the Bear Lake Volunteer Firefighters' Relief Association. Several requests have been made by our Department for the 706-B form. Furthermore, Treasury officials informed us that the 2012 distribution check totaling \$640 distributed to the municipality in September 2012, subsequent to our audit period, has not been cashed.

Due to the municipality's failure to cooperate with our Department in providing the requested 706-B form, **we recommend that future state aid funds be withheld from the Bear Lake Borough** until the 2011 distribution of \$1,132 is forwarded to a relief association and the municipality submits a completed 706-B form to our Department for the 2011 distribution. Furthermore, we recommend that the municipality immediately seek replacement checks for the 2010 and 2012 distributions of \$857 and \$640, respectively, deposit these funds, allocate these funds to a relief association and properly certify to our Department, the receipt and distribution of these tax allocations.

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

Bear Lake Volunteer Fire Department

BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure to Obtain a Federal Tax Identification Number

By obtaining a federal tax identification number and furnishing it to the financial institution in which the relief association maintains funds.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Bear Lake 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 Finding and Recommendation section of this report:

- Noncompliance With Prior Audit Recommendation –
Insufficient Officer's Bond Coverage

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

BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation –
Insufficient Surety (Fidelity) Bond Coverage

Condition: As cited in our prior audit report, the relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$5,000; however, as of December 31, 2011, the relief association's cash assets totaled \$6,919.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: Even though notified of this condition during our prior audit, relief association officials neglected to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

Effect: As a result of the disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We again recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. Relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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.

BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Bear Lake Borough's failure to distribute the state aid allocations it received in 2010, 2011, and 2012, to a relief association and file the required 706-B forms to our department, as detailed in the Background Section of this report, may lead to a total withholding of state aid in the future unless this deficiency is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the **municipality** to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2011

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	\$ 1,297
Tokens of sympathy and goodwill	178
Total Benefit Services	\$ 1,475
Fire Services:	
Equipment purchased	\$ 11,157
Equipment maintenance	33
Training expenses	1,330
Total Fire Services	\$ 12,520

BEAR LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Bear Lake Volunteer Firefighters' Relief Association Governing Body:

Mr. James Snow, President

Mr. Monty Johnson, Vice President

Ms. Barbara Dunn, Secretary

Mr. Eugene Crosby, Treasurer

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

Ms. Angela Christianson, Secretary
Bear Lake Borough

Ms. Penny Lamb, Secretary
Freehold 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.