



BUNKER HILL FIREMAN'S RELIEF ASSOCIATION

LEBANON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008 TO DECEMBER 31, 2009



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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 Bunker Hill Fireman's Relief Association, herein referred to as Bunker Hill 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 Bunker Hill Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>
Swatara Township	Lebanon	\$27,032	\$24,395

BACKGROUND (Continued)

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

Bunker Hill Volunteer Fire Company

Mr. Richard Kreitzer, President
BUNKER HILL VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lebanon County

We have conducted a compliance audit of the Bunker Hill 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, 2008 to December 31, 2009.

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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

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 Bunker Hill 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Bunker Hill Volunteer Firefighters' Relief Association's recorded financial transactions, tests

of the physical existence of inventories, interviews of selected officials and direct confirmation of the Bunker Hill Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. 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 objective.

The results of our audit, for the period January 1, 2008 to December 31, 2009, found the Bunker Hill Volunteer Firefighters' Relief Association, in all significant respects, received 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 Bunker Hill Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$100,339 and no investments. However, relief association assets totaling \$61,925, are not registered in the name of the relief association (see Finding No. 2 in the Findings and Recommendations section of this report).

Finding No. 1 – Inadequate Officer's Bond Coverage – Deductible Clause

Finding No. 2 – Inappropriate Ownership of Assets

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

November 18, 2010

JACK WAGNER
Auditor General

BUNKER HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Insufficient Officer's Bond Coverage – Deductible Clause

Condition: The relief association has an officer's bond which does not provide sufficient coverage over relief association's assets as required by Act 118.

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: The bond includes a \$2,500 deductible clause. Relief association officials were unaware that the deductible clause in their bond policy results in less than 100% protection of relief association assets.

Effect: As a result of the deductible clause, the relief association assets were not fully safeguarded.

Recommendation: We recommend the relief association ensure that the bond coverage on the disbursing officer provides full protection of cash assets. To ensure full coverage, the relief association should consider obtaining a bond policy that does not include a deductible clause. 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.

BUNKER HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inappropriate Ownership of Assets

Condition: As of December 31, 2009, the relief association held an interest bearing checking account and a money market account, with a total market value of \$100,339. The interest bearing checking account totaling \$38,414, was titled in the name of the relief association; however, the money market account totaling \$61,925, was inappropriately titled in the name of the affiliated fire service organization. In addition, both accounts were not registered under the relief association's federal tax identification number. Furthermore, the relief association's federal tax identification number is inactive. These two accounts represented all of the relief association's monetary assets as of December 31, 2009.

Criteria: Sound business practice dictates that the relief association maintain ownership of all monetary assets as a means of safeguarding its assets from unauthorized use or disposition. All monetary assets owned by the relief association should be properly registered under its name and assigned a federal tax identification number. Furthermore, all businesses, both profit and nonprofit, are required to reactivate their federal tax identification numbers and provide these numbers to any financial institution where funds are earning interest.

Cause: The relief association failed to establish adequate internal control procedures to ensure that all monetary assets were registered under the relief association's name and their active federal tax identification number.

Effect: As a result of the checking account and money market account being inappropriately registered under another entity's name and/or federal tax identification number, these relief association assets are not technically the property of the relief association.

Recommendation: We recommend the relief association immediately reactivate its federal tax identification number through the Internal Revenue Service and secure ownership rights to all monetary assets. Securing ownership rights can be accomplished by ensuring that all investments are registered only under the relief association's name and federal tax identification number. 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.

BUNKER HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2009

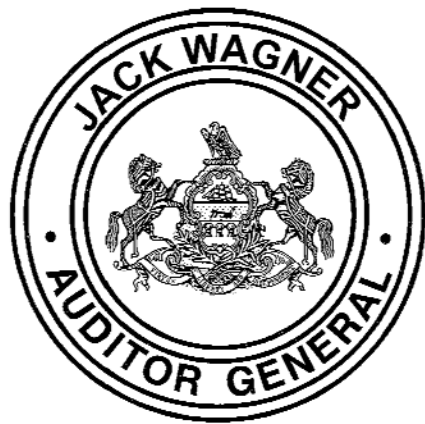
Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The 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	\$ 100
Total Benefit Services	\$ 100
Fire Services:	
Equipment purchased	\$ 53,615
Equipment maintenance	5,180
Training expenses	142
Fire prevention materials	1,569
Total Fire Services	\$ 60,506



BUNKER HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Bunker Hill Volunteer Firefighters' Relief Association Governing Body:

Mr. Richard Kreitzer, President

Mr. Brian Weikel, Vice President

Ms. Pattie Kreitzer, Secretary

Mr. Reginald Daubert, Treasurer

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

Ms. Jennifer Harding, Secretary
Swatara 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.