



RELIEF ASSOCIATION OF CONNEAUT LAKE  
BOROUGH AND SADSBUY TOWNSHIP OF  
PENNSYLVANIA

CRAWFORD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2010

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. George Zeljak, President  
CONNEAUT LAKE VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Crawford County

We have conducted a compliance audit of the Conneaut 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, 2010.

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 Conneaut 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 Conneaut 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 Conneaut Lake Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2010, 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, 2010, found the Conneaut Lake Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the four findings contained in our prior audit report. However, the Conneaut Lake Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining three findings 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 Conneaut 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, except as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report; therefore, the Conneaut Lake Volunteer Firefighters' Relief Association will be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid Section of this report. The results of our tests also indicated the Conneaut Lake Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$5,525 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Finding and Recommendation:  
Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Finding and Recommendation:  
Unauthorized Expenditures

Finding No. 3 – Noncompliance With Prior Audit Finding and Recommendation:  
Inadequately Secured Loan

Finding No. 4 – Failure to Prudently Invest and Monitor Relief Association Funds

Finding No. 5 – Failure to Maintain a Complete and Accurate Membership Roster

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

May 14, 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 Relief Association of Conneaut Lake Borough and Sadsbury Township of Pennsylvania, herein referred to as Conneaut 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 municipalities.

BACKGROUND (Continued)

The Conneaut 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>
Conneaut Lake Borough	Crawford	\$3,703	\$ 4,168
Sadsbury Township	Crawford	\$10,778	\$12,131

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

Conneaut Lake Volunteer Fire Department

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure to Maintain a Complete and Accurate Equipment Roster:

By maintaining a cumulative inventory roster of all equipment owned that has all the required information.

NONCOMPLIANCE WITH PRIOR AUDIT RECOMMENDATIONS

The Conneaut Lake Volunteer Firefighters' Relief Association has not complied with the following prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation – Undocumented Expenditures
- Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures
- Noncompliance With Prior Audit Recommendation – Inadequately Secured Loan

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

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Undocumented Expenditures

Condition: As cited in our prior audit report, the relief association was unable to provide adequate supporting documentation for the following prior audit period expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
11-30-07	3405	\$ 100
3-16-08	3463	120
6-6-08	3483	295
9-11-08	3513	<u>100</u>
Total		<u>\$ 615</u>

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states, in part:

The Department of the Auditor General shall have the power and its duty shall be, to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), [FN1] known as the "Municipal Pension Plan Funding Standard and Recovery Act," as amended, as far as may be necessary to satisfy the department that the money received was expended or is being expended for no purpose other than that authorized by this act.

Without adequate supporting documentation, such as invoices, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Even though notified of this condition during the conduct of our prior audit, relief association officials neglected to establish adequate internal control procedures to ensure adequate supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f).

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 1 - (Continued)

However, subsequent to the period under review, on July 28, 2011, the relief association received reimbursement in the amount of \$615 from the Conneaut Lake Volunteer Fire Department for the undocumented expenditures.

Recommendation: We again recommend the relief association officials maintain supporting documentation for all 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 indicated they have taken action to comply with the recommendation.

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Unauthorized Expenditures

Condition: As cited in our prior audit report, the relief association expended funds for the following items that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
10/30/07	3398	Fire Company property insurance	\$ 794
		Total	<u>\$ 794</u>

In addition, in the current audit period the relief association expended the following unauthorized expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
06/19/09	3601	Gift for Member	\$ 50
06/19/09	3602	Gift for Member	50
06/22/10	3722	Gift for Member	<u>50</u>
		Total	<u>\$ 150</u>
		Total prior and current year	<u>\$ 944</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(2, 10, and 12) states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.
  
- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 - (Continued)

Costs associated with the purchase of fire company property insurance and gifts for members do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Even though notified of this condition during our prior audit, relief association officials neglected that the aforementioned expenditures were not authorized by Act 118.

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

However, subsequent to the period under review, on July 28, 2011, the relief association received reimbursement, in the amount of \$944, from the Conneaut Lake Volunteer Fire Department for the unauthorized expenditures.

Recommendation: We again recommend the 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 indicated they have taken action to comply with the recommendation.

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Unsecured Loan

Condition: As cited in our prior audit report, on November 1, 2003, the relief association made a loan, in the amount of \$182,057, to the Conneaut Lake Volunteer Fire Department. While the written loan agreement identifies a 1982 pumper truck as the collateral, and the relief association has a recorded lien on the title to this respective vehicle, without an appraisal, we could not determine whether the total equity in the vehicle pledged as collateral is sufficient to adequately secure the relief association's investment.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) requires that loans be:

. . . secured by assets of the [fire] company having capital value equal to at least 150 percent of the amount of the obligation at the time it is made, and is subject to provisions which will amortize such loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150 percent of the balance remaining due.

Cause: Even though notified of this condition, during the conduct of our prior audit, relief association officials, again, failed to obtain an appraisal for the 1982 pumper truck to evidence that the loan to the fire company was adequately secured as required by Act 118.

Effect: The relief association's failure to obtain adequate security for the loan places the relief association's investment at greater risk. Furthermore, the relief association's continued failure to adequately secure this loan may lead to a total withholding of state aid, as detailed on page 12 of this report.

Recommendation: We, again, recommend the relief association and the fire company obtain an appraisal for the 1982 pumper truck to ensure that it provides adequate security for the relief association's investment as required by Act 118 at 35 Pa.C.S. § 7416(c)(3). If such action is not taken, we recommend that the loan be immediately liquidated. 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.



CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 4 – Failure to Prudently Invest and Monitor Relief Association Funds

Condition: The relief association failed to prudently invest and monitor relief association funds. The relief association operated and incurred the costs of a fundraising operation which resulted in a net loss of relief association assets. In addition, the relief association failed to collect all monies it was owed from a loan it made to the affiliated fire department.

During the current audit period, the relief association held bingo fundraising events which resulted in a net loss. The relief association paid the Conneaut Lake Volunteer Fire Department \$53,298 in rent plus another \$32,242 for a total of \$85,540 for the fundraising expenses. During the same period, the fundraising generated only \$71,025 in revenue, resulting in a net loss of \$14,515.

In addition, on November 1, 2003, the relief association entered into a loan agreement with the Conneaut Lake Volunteer Fire Department which resulted in a \$182,057 loan from the relief association to the fire department. The agreement required a monthly payment from the fire department to the relief association. However, in lieu of making regular monthly payments, the fire department has been making annual payments. Furthermore, the fire department payments are not current as of December 31, 2010, the fire department was in arrears by \$14,156.

Criteria: Fiduciaries Investment Act:

After determining that adequate assets are available for investment purposes, the relief association should then consider its investment choices in compliance with existing statutory regulations. The Fiduciaries Investment Act allows the association to invest in a security if it is one which “a prudent man of discretion and intelligence who is seeking a reasonable income and preservation of capital, would buy.”

Additionally, prudent procedures for investments should include the following:

When the association's governing body manages the fund assets, it has an obligation to review investments on a periodic basis. The fund must be monitored for cash flow to make sure there is a proper balance between anticipated income and expenditures.

Cause: Relief association officials failed to prudently invest relief association funds in ventures that would yield a profit for the relief association. The relief association failed to monitor fundraising to ensure a profit was being made. Furthermore, the relief association failed to monitor the repayment by the fire department of the loan from the relief association.

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 4 - (Continued)

Effect: The failure to prudently invest and monitor relief association investments and loan repayments resulted in \$28,671 in relief association funds not being available to the relief association to afford financial protection to its volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service.

Recommendation: We recommend that the relief association invest its funds in a proper and prudent manner. In addition, the relief association should monitor all investments to ensure that the investments do not result in a loss of relief association assets. This requirement may be accomplished by discontinuing all fundraising events that operate at a loss. We further recommend that the relief association collect all payments that are in arrears and ensure all future payments are received in accordance with the loan agreement. 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 exit conference and indicated they will take action to comply with the recommendation.

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 5 – Failure to Maintain a Complete and Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members. While a list of members was provided, it only included members' names and classifications.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member;
- Members' mailing addresses;
- Dates of births;
- Dates of memberships; and
- Membership classifications.

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials were unaware that they should maintain a comprehensive roster of relief association members.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

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

Conditions of repeat findings, such as those reported in Finding Nos. 2 and 3, may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient documentation is provided immediately to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2010

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	\$ 3,105
Relief benefits	1,380
Tokens of sympathy and goodwill	351
Total Benefit Services	<u>\$ 4,836</u>
Fire Services:	
Equipment purchased	\$ 17,783
Equipment maintenance	14,178
Training expenses	953
Fire prevention materials	838
Total Fire Services	<u>\$ 33,752</u>
Administrative Services:	
Other administrative expenses	\$ 2,195
Total Administrative Services	<u>\$ 2,195</u>
Other Expenditures:	
Fund-Raising expenses	\$ 85,540
Principal payments on lease-financing	24,183
Interest payments on lease-financing	7,369
Total Other Expenditures	<u>\$ 117,092</u>



CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Conneaut Lake Volunteer Firefighters' Relief Association Governing Body:

Mr. George Zeljak, President

Mr. Charles Mulidoro, Vice President

Ms. Jada Betts, Secretary

Mr. John Eric Baum, Treasurer

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

Ms. Linda Joyce, Secretary  
Conneaut Lake Borough

Ms. Rose A. Mumau, Secretary  
Sadsbury Township

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://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](mailto:news@auditorgen.state.pa.us).