



**RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH AND  
SADSBURY TOWNSHIP OF PENNSYLVANIA**

**HEREIN REFERRED TO AS:**

**CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**CRAWFORD COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006 TO DECEMBER 31, 2008**



## CONTENTS

Background.....	1
Letter From the Auditor General .....	3
Status of Prior Findings .....	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures .....	6
Finding No. 2 – Unauthorized Expenditure .....	8
Finding No. 3 – Inadequately Secured Loan .....	10
Finding No. 4 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster .....	12
Accompanying Expenditure Information .....	14
Report Distribution List .....	15



## 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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), 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 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 84 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 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, 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 Conneaut Lake Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Conneaut Lake Borough	Crawford	\$ 4,139	\$ 4,091	\$ 4,151
Sadsbury Township	Crawford	\$11,708	\$11,791	\$12,069

BACKGROUND (Continued)

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

Mr. Karl Greg Conley, 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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2006 to December 31, 2008.

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 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, 2008, 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, 2006 to December 31, 2008, found, in all significant respects, the Conneaut Lake Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report. The results of our tests indicated the Conneaut Lake Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$14,850 and an investment balance with a fair value of \$159,873.

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

Finding No. 2 – Unauthorized Expenditure

Finding No. 3 – Inadequately Secured Loan

Finding No. 4 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment 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.

July 13, 2009

JACK WAGNER  
Auditor General



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:

- Insufficient Officer's Bond Coverage

By increasing the officer's bond coverage to an amount greater than the balance of cash assets.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Noncompliance With Prior Audit Recommendation –  
Undocumented Expenditures

Although the relief association provided adequate supporting documentation for \$1,751 of the undocumented expenditures and was reimbursed \$637 from the affiliated fire company for the remaining undocumented expenditures made in the prior audit period, it again neglected to maintain adequate supporting documentation for all current period expenditures as discussed in Finding No. 1 of this report.

- Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

We are concerned with the volunteer firefighters' relief association's failure to correct these 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 the prior audit report, the relief association again neglected to maintain adequate supporting documentation for all association expenditures made in the current audit period. During the current audit period, the relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
01/10/07	3315	Disbursement to individual	\$ 20
02/21/07	3327	Disbursement to individual	1,600
12/19/07	3423	Flower shop	107
02/25/08	3451	Training provider	120
03/16/08	3463	Training provider	120
06/06/08	3483	Equipment vendor	295
08/25/08	3509	Equipment vendor	179
11/02/08	3528	Disbursement to individual	100
11/02/08	3529	Disbursement to individual	100
Total			<u>\$ 2,641</u>

Criteria: Act 84 at 53 P.S. § 8507(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 any money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No 205), 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 and training certificates, where applicable this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require that supporting documentation be maintained to verify the propriety of all financial transactions.

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: While notified of this deficiency in the prior audit report, relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices and training certificates, where applicable made it impossible to determine if the expenditures were made in accordance with Act 84.

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices and training certificates, where applicable to determine the validity of the expenditures or that the relief association be reimbursed \$2,641 for the undocumented expenditures. We also again recommend that 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 will take action to comply with the recommendation.

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditure

Condition: The relief association expended \$794 for a fire company property insurance premium that is not authorized by Act 84.

Criteria: Act 84 at 53 P.S. § 8506(e)(2 and 12) states:

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

- (2) To purchase contracts of insurance which shall at the least afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and which may also provide in the order named, (i) for payments to the widow or other dependents of a member in the event of his death, (ii) for protection of active firemen against disease, (iii) for the replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches, and the like, where such devices have been lost or damaged while the owner was engaged in the fire service or where the need for such devices arises because of functional impairment attributable to participation in the fire service, (iv) for the repair or replacement if necessary of articles of clothing or pocket pagers damaged in the course of participation in the fire service, and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.
  
- (12) To secure insurance against the legal liability of the volunteer firefighters for loss and expense from claims arising out of the performance of their official, authorized duties while going to, returning from or attending fires or while performing their duties as special fire police.

The insurance coverage stated above has been deemed to not qualify under Act 84 as the purpose of this type of insurance is not for the protection of relief association assets or for the safety of the volunteer firefighters; consequently, the premium payment is considered an unauthorized expenditure.

Cause: Relief association officials were unaware that the expenditure for the property insurance premium was not authorized by Act 84.

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 84.

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend the relief association be reimbursed \$794 for the unauthorized expenditure and that relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) 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 will take action to comply with the recommendation.

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequately Secured Loan

Condition: On November 1, 2003, the relief association made a loan to the Conneaut Lake Volunteer Fire Department in the amount of \$182,057. While the written loan agreement identifies a 1982 pumper truck as the collateral and the relief association has recorded a lien on the title to this respective vehicle, it could not be determined if the total equity in the vehicle pledged as collateral is sufficient to adequately secure the relief association's investment.

In addition, the payments due on the loan were not collected on a monthly basis as stipulated in the written loan agreement. Specifically, the relief association did not timely receive loan payments during 2006 and 2007. The fire company made a lump sum payment in December 2007, in the amount of \$14,157, but made no payments in 2008. As of December 31, 2008, the loan is \$23,854 in arrears.

Criteria: Act 84 at 53 P.S. § 8506(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 equal to 150 percent of the balance remaining due.

In addition, the terms of the loan agreement state that payments of \$1,416 will be due on a monthly basis, beginning December 1, 2003.

Cause: Relief association officials were unaware that the loan to the fire company was not sufficiently secured to ensure compliance with Act 84 provisions. Relief association officials also failed to establish adequate internal control procedures to ensure loan payments would be collected in accordance with the payment schedule.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk. Due to the relief association not receiving the schedule loan payments, funds were unavailable for general operating expenses.

Recommendation: We 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 84 at 53 P.S. § 8506(c)(3). 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. 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.

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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

Finding No. 4 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the prior audit report, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While the relief association did provide an equipment roster during the current audit agreement, it did not indicate purchase dates or costs to accurately identify equipment owned. As such, it was impossible to determine if the equipment purchased during the audit period was recorded. Furthermore, there was no indication that an annual inventory of the equipment was performed to account for the relief association's fixed assets.

Criteria: 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 fixed assets. A cumulative roster of all relief association equipment should include the following:

- Type of equipment purchased.
- Date of purchase.
- Unit cost.
- Name of supplier.
- Serial number, if applicable.
- Current location of item.
- Final disposition of sold or damaged equipment.
- Notation of the annual inventory.

Cause: While notified of this condition in the prior audit report, relief association officials neglected to establish adequate internal control procedures over fixed assets to include the maintenance of a cumulative equipment roster and the performance of an annual equipment inventory.

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 equipment inventory prevents adequate accountability and safeguarding of relief association assets.

Recommendation: We again recommend the relief association officials maintain a cumulative roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual inventory of all operable equipment and that the inventory be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.



CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

Act 84 at 53 P.S. § 8502(1) states, in part, that:

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. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, 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. 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	\$ 5,237
Relief benefits	1,685
Tokens of sympathy and goodwill	213
Total Benefit Services	\$ 7,135
Fire Services:	
Equipment purchased	\$ 106,810
Equipment maintenance	14,220
Training expenses	6,212
Total Fire Services	\$ 127,242
Administrative Services:	
Miscellaneous administrative expenses	\$ 1,440
Total Administrative Services	\$ 1,440
Other Expenditures:	
Small games of chance and bingo expenses	\$ 145,691
Principal payments on lease-financing	12,464
Interest payments on lease- financing	6,944
Undocumented expenditures	2,841
Total Other Expenditures	\$ 167,940

CONNEAUT LAKE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Conneaut Lake Volunteer Firefighters' Relief Association Governing Body:

Mr. Karl Greg Conley, President

Mr. Charles Mulidoro, Vice President

Ms. Jada Nye, Secretary

Mr. John Eric Baum, Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Linda Joyce, Secretary  
Conneaut Lake Borough

Ms. Rose A. Mumau, Secretary  
Sadsbury 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](http://www.auditorgen.state.pa.us).