



THE DUPONT VOLUNTEER HOSE COMPANY NO. 1 RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

DUPONT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2008



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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, 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 Dupont 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 Dupont Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>
Dupont Borough	Luzerne	\$16,211	\$16,511

BACKGROUND (Continued)

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

Dupont Volunteer Hose Company

Ms. Judith Cocco, President
DUPONT VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Luzerne County

We have conducted a compliance audit of the Dupont 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, 2007 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 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 Dupont 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Dupont Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the

physical existence of inventories, interviews of selected officials and direct confirmation of the Dupont 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 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, 2007 to December 31, 2008, found the Dupont Volunteer Firefighters' Relief Association did not receive and expend state aid and accumulated funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the findings listed below and discussed later in this report. The results of our tests also indicated the Dupont Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and, as of December 31, 2008, had a cash balance of \$8,613 and an investment balance with a fair value of \$43,511.

Finding No. 1 – Misappropriation of Assets

Finding No. 2 – Inadequate Internal Controls

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

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

October 8, 2009

JACK WAGNER
Auditor General

DUPONT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Misappropriation of Assets

Condition: During and subsequent to the audit period, the former relief association treasurer withdrew and misappropriated \$66,527 of relief association monetary assets. In 2008 and 2009, the former treasurer wrote approximately 190 relief association checks to himself that he subsequently cashed. The checks were written without authorization or knowledge of the relief association membership.

On September 1, 2010, the former relief association treasurer pled guilty to forgery and theft by unlawful taking. He was sentence to house arrest and probation and ordered to make restitution.

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.

In addition, Article VI, Section I, of the relief association bylaws states:

Funds of this Association shall not be expended for any purposes other than those authorized by the provisions of Act 84 and the Association By-laws. All expenditures must be approved by a majority vote at the regular monthly meetings.

Furthermore, Article VIII, Section I, of the relief association bylaws states:

The Treasurer shall keep record of all money belonging to the association and he shall not expend monies or enter into investment transactions without authorization of the membership.

Cause: Relief association officials failed to establish and monitor internal control procedures to ensure the propriety of all expenditures and that relief association monetary assets were adequately protected. The numerous internal control deficiencies are discussed in further detail in Finding No. 2 in the Findings and Recommendations section of this report. The relief association was unaware of its ineffective internal control system.

DUPONT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As a result of the inadequate internal controls, \$66,527 of relief association monies were stolen, and therefore, were not available for authorized relief association activities.

Subsequent to the audit period, the relief association was reimbursed \$66,527 by the bonding insurance company. The former treasurer was ordered by the court to make restitution to the bonding company.

Recommendation: We recommend that relief association officials establish adequate internal control procedures to prevent the future of misappropriation of assets. 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 presented at the exit conference and indicated they will take action to comply with the recommendation.

DUPONT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Internal Controls

Condition: The relief association has failed to establish adequate internal controls. The following internal control weaknesses existed during the audit period:

- Financial record-keeping system was inadequate;
- Bank reconciliations were not performed;
- All financial related activities were not presented, discussed, and approved at relief association meetings;
- Detailed minutes of meetings were not maintained; and
- Periodic physical inventories of equipment owned were not performed.

Criteria: Act 84 at 53 P.S. § 8505(a) states, in part, that the relief association:

.... must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

Furthermore, prudent business practice dictates that:

- Original invoices shall be required prior to payment of purchases;
- Purchases with cash terms should be prohibited;
- Checks should be mailed directly to vendors;
- Monthly bank reconciliations should be performed;
- All purchases shall be presented to the association membership for discussion and approval;
- Detailed meeting minutes must be maintained to accurately document relief association business; and
- Periodic physical inventories of equipment should be performed.

Cause: The relief association failed to establish adequate internal controls to ensure the propriety of expenditures and proper documentation of relief association transactions. The relief association officials were unaware of the relief association's ineffective internal control system.

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets and prevented the verification as to whether relief association business was presented before the membership for discussion and approval. During 2008 and 2009, the former relief association treasurer stole \$66,527 in relief association money. Details of the misappropriation of assets are in Finding No. 1 in the Findings and Recommendations Section of this report. The lack of effective internal controls places the relief association funds at greater risk for misappropriation.

DUPONT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend the relief association officials adopt internal control procedures which will require the following:

- Documentation of all expenditures;
- Performance of monthly bank reconciliations;
- Presentation, discussion, and approval of financial activities at relief association meetings;
- Maintenance of detailed meeting minutes; and
- Periodic physical inventories of equipment owned.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION.

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.

DUPONT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. Specifically the roster did not include dates of purchases, unit costs, names of suppliers, locations, and final disposition dates. In addition, there was no evidence that an annual physical inventory of relief association equipment was performed.

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 equipment roster of all relief association equipment should include the following:

- Types of equipment purchased;
- Dates of purchases;
- Unit costs;
- Names of suppliers;
- Serial numbers, if applicable;
- Current locations of items;
- Final dispositions of sold or damaged equipment; and
- Evidence of the results of annual physical inventory.

Furthermore, sound business practice requires the performance of an annual physical inventory of all relief association owned equipment.

Cause: Relief association officials failed to establish adequate internal control procedures over fixed assets requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment. Prior equipment rosters contained the required information. Relief association officials provided no reason for the changes made and the inadequacy of the equipment rosters.

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 physical inventory of fixed assets prevents adequate accountability for, and safeguarding of, relief association fixed assets.

DUPONT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. 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.

DUPONT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2008

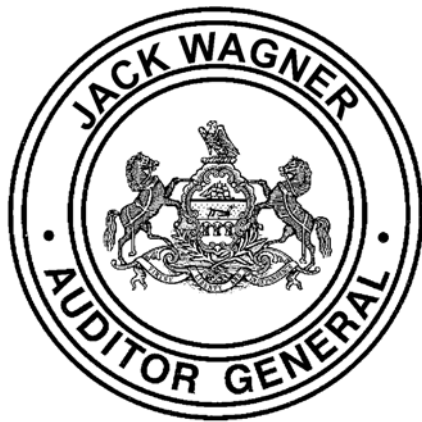
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 510
Death benefits	1,000
Total Benefit Services	\$ 1,510
Fire Services:	
Equipment purchased	\$ 12,835
Training expenses	283
Total Fire Services	\$ 13,118
Total Investments Purchased	\$ 10,000
Other Expenditures:	
Misappropriation of assets (audit period only)	\$ 40,326
Total Other Expenditures	\$ 40,326



DUPONT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Dupont Volunteer Firefighters' Relief Association Governing Body:

Ms. Judith Cocco, President

Mr. Gary Kaspriskie, Vice President

Mr. Charles Tetlack, Secretary

Mr. John McArdle, Treasurer

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

Ms. Patricia McDonald, Borough Manager
Dupont Borough

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.