



EAST BERWICK VOLUNTEER FIREMAN'S RELIEF ASSOCIATION

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008 TO NOVEMBER 2, 2010



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

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Salem Township	Luzerne	\$16,351	\$16,359	*

* As of November 2, 2010, the East Berwick Volunteer Firefighters' Relief Association dissolved its organization and transferred its assets to Salem Township Volunteer Firefighters' Relief Association. Thereafter, it did not receive any further state aid allocations (see Accompanying Expenditure Information section of this report).

The volunteer firefighters' relief association and the affiliated fire service organization were separate, legal entities. The East Berwick Volunteer Firefighters' Relief Association was affiliated with the East Berwick Hose Company No. 2.

Mr. Larry Remphrey, Jr., President
EAST BERWICK VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Luzerne County

We have conducted a compliance audit of the East Berwick 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 November 2, 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 East Berwick 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 East Berwick Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the East Berwick Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of November 2, 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, 2008 to November 2, 2010, found the East Berwick Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the three findings contained in our prior audit report. However, the East Berwick 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 East Berwick 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 finding listed below and discussed in detail in the Finding and Recommendation section of this report. The results of our tests also indicated the East Berwick Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information. However, as of November 2, 2010, East Berwick Volunteer Firefighters' Relief Association dissolved and all remaining monetary assets were transferred to the Salem Township Volunteer Firefighters' Relief Association. (See Accompanying Expenditure Information section of this report).

Finding – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditure

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

November 4, 2010

JACK WAGNER
Auditor General

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The East Berwick Volunteer Firefighters' Relief Association has complied with two of the three prior audit findings and recommendations:

- Inadequate Record-Keeping and Internal Controls

By establishing adequate accounting procedures that meet the minimum financial record-keeping requirements of this department and by adopting sufficient internal control procedures to adequately safeguard relief association assets and ensure the propriety of all relief association assets.

- Inadequate Minutes of Meetings

By maintaining detailed minutes of all relief association meetings.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The East Berwick Volunteer Firefighters' Relief Association has not complied with one of the three 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 –
Undocumented Expenditure

While the relief association was reimbursed \$2,012 from the East Berwick Hose Company No. 2 for the prior audit period's undocumented expenditures, the relief association was unable to provide adequate supporting documentation for a \$7,500 expenditure made during the current audit period, as discussed in the Finding in the Finding and Recommendation section of this report.

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

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditure

Condition: As cited in our prior audit report, the relief association, again, was unable to provide adequate supporting documentation for an expenditure. While the relief association was reimbursed \$2,102 by the East Berwick Hose Company No. 2 for undocumented expenditures identified during our prior audit, the relief association was unable to provide adequate supporting documentation for an expenditure, in the amount of \$7,500, to East Berwick Hose Company No. 2, on May 20, 2008. A copy of a letter from the president of East Berwick Hose Company No. 2 to the relief association indicating the sale of three sets of turnout gear was found. However, a copy of the original invoice and/or an appraisal of the value of the equipment was not available. In addition, the turnout gear was not included on the relief association's equipment roster.

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

The Office of 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 far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Without adequate supporting documentation, such as invoices, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, good business practices dictate that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: While notified of this condition during our prior audit, relief association officials, again, failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as an invoice or appraisal, made it impossible to determine if the expenditure was made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: Due to the dissolution of East Berwick Volunteer Firefighters' Relief Association and the transfer of its assets to the Salem Township Volunteer Firefighters' Relief Association, we are making this recommendation to Salem Township Volunteer Firefighters' Relief Association. We recommend the Salem Township Volunteer Firefighters' Relief Association provide this department with adequate supporting documentation, such as an invoice, to determine the validity of the expenditure or that the relief association be reimbursed \$7,500 for the undocumented expenditure. In addition, the equipment should be included on the Salem Township Volunteer Firefighters' Relief Association's equipment roster.

Management's Response: East Berwick Volunteer Firefighters' Relief Association management agreed with the finding as presented at the audit exit conference.

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2008 TO NOVEMBER 2, 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:

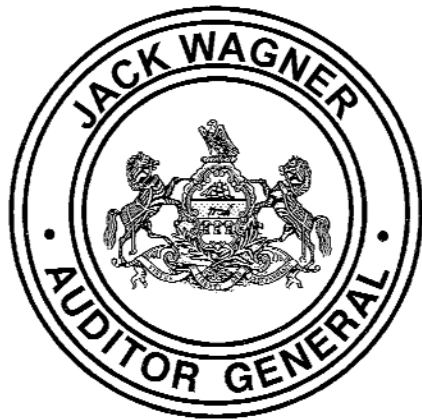
Benefit Services:	
Insurance premiums	\$ 205
Death benefits	2,000
Total Benefit Services	\$ 2,205
Fire Services:	
Equipment purchased	\$ 30,973
Equipment maintenance	2,835
Training expenses	1,297
Total Fire Services	\$ 35,105
Administrative Services:	
Miscellaneous administrative expenses	\$ 231
Total Administrative Services	\$ 231

EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2008 TO NOVEMBER 2, 2010 (Continued)

Other Expenditures:	
Principal payments on loan	\$ 22,813
Interest payments on loan	2,515
Transfer of monetary assets *	<u>20,296</u>
Total Other Expenditures	<u>\$ 45,624</u>

* Transfer of Monetary Assets

The membership of the East Berwick Volunteer Firefighters' Relief Association voted to approve the dissolution of its relief association and the subsequent transfer of assets to the Salem Township Volunteer Firefighters' Relief Association. As of November 2, 2010, the East Berwick Volunteer Firefighters' Relief Association completed the process of dissolution by transferring ownership of its equipment inventory and monetary assets to the Salem Township Volunteer Firefighters' Relief Association.



EAST BERWICK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

East Berwick Volunteer Firefighters' Relief Association Governing Body:

Mr. Larry Remphrey, Jr., President

Mr. Lee Smith, Vice President

Mr. Richard Eyer, Secretary

Mr. John Fogg, Jr., Treasurer

Salem Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Brice Dalrymple, President

Mr. Andrew Steimling, Vice President

Mr. Richard Eyer, Secretary

Mr. John Fogg, Jr., Treasurer

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

Ms. Kathy John, Secretary
Salem 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.