



GORDONVILLE FIREMEN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

GORDONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 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 Gordonville 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 Gordonville Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Leacock Township	Lancaster	\$17,343	\$18,055	\$18,860

BACKGROUND (Continued)

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

Gordonville Fire Company

Mr. Kenneth Esh, President
GORDONVILLE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lancaster County

We have conducted a compliance audit of the Gordonville 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 Gordonville 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 Gordonville Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Gordonville 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 the Gordonville Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the findings contained in our prior audit report. The Gordonville Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining findings contained in our prior audit report listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found, in all significant respects, the Gordonville Volunteer Firefighters' Relief Association received and expended 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. The results of our tests also indicated the Gordonville Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$24,340 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Officer's Bond Coverage

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditure

Finding No. 3 – Inadequate Relief Association Bylaws

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

December 23, 2009

JACK WAGNER
Auditor General

GORDONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Unauthorized Expenditures

By receiving reimbursement from the Gordonville Fire Company, in the amount of \$10,678, for the unauthorized expenditures made during the prior audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Gordonville Volunteer Firefighters' Relief Association has not complied with the following prior audit findings and recommendations. These findings are detailed below and further discussed in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain Officer's Bond Coverage

The Gordonville Volunteer Firefighters' Relief Association has complied with the prior audit recommendation by decreasing the cash assets to an amount below the maximum protection of the officer's bond coverage. However, the relief association did not comply with the prior audit recommendation regarding changing the bond to cover current relief association officers. See Finding No. 1 in the Findings and Recommendations section of this report.

- Noncompliance With Prior Audit Recommendation –
Undocumented Expenditure

The Gordonville Volunteer Firefighters' Relief Association did receive reimbursement from the Gordonville Fire Company, on April 30, 2007, in the amount of \$1,017 for the undocumented expenditure made during the prior audit period. However, the relief association had an additional undocumented expenditure during the current audit period. This issue is further discussed in Finding No. 2 in the Findings and Recommendations section of this report.

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.

GORDONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Officer's Bond Coverage

Condition: As cited in the prior audit report, the relief association bond policy is a name scheduled bond in the names of a past president and treasurer. The bond policy was not updated to include the names of the current association officers. Therefore, during the audit period, the relief association did not maintain sufficient bond coverage. The relief association, again, failed to maintain bond coverage on the disbursing officer as required by Act 84.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary, or otherwise, shall be bonded by corporate surety for the faithful performance of his duties. The amount of such 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 such bond shall be a proper charge against the funds of the association.

Cause: While notified of this condition during our prior audit, the relief association did not update its name scheduled bond to reflect the current relief association officers.

Effect: As a result of the disbursing officer of the relief association not being bonded, the relief association's cash assets are not adequately safeguarded.

Recommendation: We again recommend the relief association ensure that a faithful performance bond adequately covers the disbursing officer, as required by Act 84. The relief association must contact its bonding company to change the bond policy to the current relief association officials, or the relief association should change its name scheduled bond to a position schedule or blanket policy. 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.

GORDONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditure

Condition: The relief association, again, neglected to maintain adequate supporting documentation for all association expenditures made in the current audit period. The relief association was unable to provide adequate supporting documentation for a November 1, 2006, expenditure in the amount of \$277, to Gordonville Fire Company. Relief association officials said the expenditure was for training.

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, training certificates, attendance rosters, etc., 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.

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

Effect: Lack of supporting documentation, such as an invoice, training certificates, and attendance rosters, made it impossible to determine if the expenditure was made in accordance with Act 84 at 53 P.S. § 8506(e). In addition, the failure to maintain adequate documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We again recommend the relief association provide this department with adequate supporting documentation, to determine the validity of the expenditure or that the relief association be reimbursed \$277 for the undocumented expenditure. We also 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.

GORDONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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.

GORDONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the Gordonville Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 84 at 53 P.S. § 8505(c). Specifically, the bylaws do not address the requirement for the signatures of at least two officers, **one of whom shall be the disbursing officer**, for the disbursement of funds (emphasis added).

In addition Article III, Section I, of the relief association bylaws states, in part:

The officers of this association shall consist of President, and Secretary-Treasurer.

However, the association elects officers of president, vice-president, secretary, and treasurer.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that the relief association's bylaws shall include the following provision:

Require the signatures of at least two officers, one of whom shall be the disbursing officer, in order to bind the relief association by formal contract or to issue any negotiable instrument.

Furthermore, prudent business practice dictates that the relief association should establish internal control procedures to ensure that officers' duties are clearly defined and segregated, specifically the positions of secretary and treasurer. The separation of responsibilities of these two positions will ensure that the person who is responsible for the record-keeping that authorizes a financial transaction is not the same person who is responsible for the record-keeping that records a financial transaction. The relief association bylaws should formally document the specific operating procedures of the relief association.

Cause: Relief association officials were aware of the bylaw requirements. Relief association officials amended its bylaws in an attempt to be in compliance. However, the amendment added the position of treasurer but did not eliminate the position of secretary-treasurer. Furthermore, the amendment did not include the position of vice-president. Relief association officials did not explain why elected officers' positions were different than bylaw officer positions. Furthermore, the relief association took no action to amend its bylaws to require the signatures of at least two officers, one of whom should be the disbursing officer.

GORDONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No 3 – (Continued)

Effect: As a result of the mandatory provision not being included in the bylaws regarding the disbursing officer's signature, the relief association may have conducted its affairs without proper authorization. The relief association's failure to formally segregate the offices of secretary and treasurer in the relief association bylaws prevents the membership from being aware that the positions should be segregated. Although, the relief association now has separate individuals holding these positions, by not formally separating positions in the bylaws, the membership may not be aware that the positions should be separated and that the respective duties should not be performed by the same person.

Recommendation: We recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 84 and properly authorize the operating procedures of the relief association. 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.

GORDONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

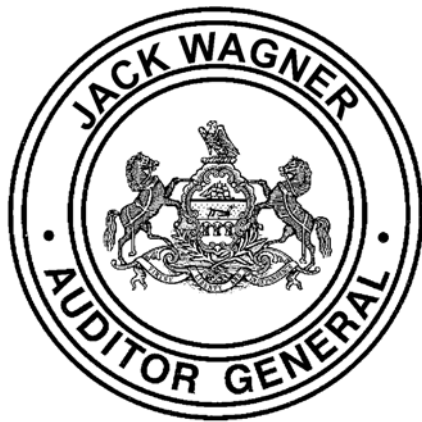
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 12,774
Relief benefits	1,066
Total Benefit Services	\$ 13,840
Fire Services:	
Equipment purchased	\$ 57,542
Equipment maintenance	3,976
Training expenses	2,637
Total Fire Services	\$ 64,155
Administrative Services:	
Miscellaneous administrative expenses	\$ 80
Total Administrative Services	\$ 80
Other Expenditures:	
Undocumented expenditure	\$ 277
Total Other Expenditures	\$ 277



GORDONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Gordonville Volunteer Firefighters' Relief Association Governing Body:

Mr. Kenneth Esh, President

Mr. Brian Gregg, Vice President

Mr. Jonathan Fisher, Secretary

Mr. Ivan S. Fisher, Treasurer

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

Mr. Frank E. Howe, Secretary
Leacock 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.