



LEWISBERRY COMMUNITY FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION

YORK COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2009



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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 Lewisberry Community Fire Company Fireman's Relief Association, herein referred to as Lewisberry 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 Lewisberry Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Lewisberry Borough	York	\$ 2,232	\$ 2,279	\$ 2,109
Newberry Township	York	\$23,261	\$25,043	\$22,982

BACKGROUND (Continued)

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

Lewisberry Community Fire Company

Mr. William Wentz, President
LEWISBERRY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
York County

We have conducted a compliance audit of the Lewisberry 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, 2009.

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 Lewisberry 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 Lewisberry Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Lewisberry Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, 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, 2007 to December 31, 2009, found, in all significant respects, the Lewisberry Volunteer Firefighters' Relief Association did not receive and expend funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the following findings discussed later in this report. The results of our tests indicated the Lewisberry Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2009, had a cash balance of \$4,711 and no investments.

Finding No. 1 – Undocumented Expenditures

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 Lewisberry Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

June 30, 2010

JACK WAGNER
Auditor General

LEWISBERRY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Lewisberry Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Inadequate Relief Association Bylaws

By revising the relief association bylaws to meet the minimum requirements of Act 84.

- Inadequate Signatory Authority

By requiring more than one signature on all negotiable instruments. However, during the current and subsequent audit periods, on-line electronic transfers and direct cash withdrawals were made by one officer without the approval of relief association membership. This issue is further discussed in Finding Nos. 1 and 2 of this report.

- Failure to Maintain a Complete and Accurate Membership Roster

By maintaining a comprehensive listing of the relief association membership.

LEWISBERRY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: During the audit period and through May 24, 2010, the relief association was unable to provide adequate supporting documentation for the following expenditures:

Current Period:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
03/22/08	1208	Insurance agency	\$ 2,563
12/11/08	1214	Oil company	998
01/14/09	1217	Individual	1,475
11/13/09	1231	Individual	550
11/25/09	1232	Equipment vendor	4,443
*Various	Debit	2 cash withdrawals	760
*Various	Debit	22 on-line electronic transfers	36,895
Current Period Total			<u>\$ 47,684</u>

Subsequent Period:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
*Various	Debit	Cash withdrawal	\$ 2,030
*Various	Debit	3 on-line electronic transfers	500
Subsequent Period Total			<u>\$ 2,530</u>
Undocumented Expenditure Total			<u><u>\$ 50,214</u></u>

* These various cash withdrawals and on-line electronic transfers occurred during the period July 6, 2007 through May 24, 2010.

We were informed by a relief association official that the on-line electronic transfers and cash withdrawals noted above were transfers from a relief association account to a fire company account to assist the affiliated fire company with paying its operating expenses. The relief association did not provide documentation, such as invoices, that is necessary to enable us to determine the validity of the amounts disbursed and whether the disbursements were for expenditures authorized by Act 84. Furthermore, the withdrawal of these relief association funds through on-line electronic transfers and cash withdrawals was executed without the approval of the relief association membership.

LEWISBERRY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

In addition, according to the relief association, the two disbursements to an individual were payments for training. However, the relief association did not provide an invoice or training certificates to verify that bona fide training was provided.

On March 9, 2009 and June 4, 2009, transfers of \$660 and \$500, respectively, were made from the fire company account to the relief association account. No documentation was provided to support the \$1,160 in receipts from the fire company, but a relief association official stated the transfers were reimbursements for prior transfers from the relief association to the fire company.

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 10, Section 5 of the relief association bylaws states, in pertinent part:

Checking, savings, money market, and other similar accounts must be maintained such that at least two relief association officer's signatures are needed for any transactions including withdrawals or transfer of funds.

Without adequate supporting documentation, such as invoices and training certificates, 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: 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, 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, to determine the validity of the expenditures or that the relief association be reimbursed \$49,054 for the undocumented expenditures. 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.

LEWISBERRY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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.

LEWISBERRY 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 material internal control weaknesses existed during the audit period:

- Documentation to support various receipts and expenditures, including on-line transfers and cash withdrawals, was not available for examination.
- Undocumented cash withdrawals and undocumented on-line electronic transfers were made by one board officer without oversight by another board officer.
- Annual financial statements were not prepared.
- Equipment purchases were not properly recorded.
- Annual inventories of equipment owned were not performed.
- The board officer positions of vice-president, secretary, and treasurer are vacant.

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.

In addition, prudent business practice dictates that:

- Sufficient documentation be maintained to support all receipts and expenditures, including on-line electronic transfers and cash withdrawals.
- The relief association have sufficient internal controls in place to ensure the propriety of all relief association expenditures. Such procedures should include procedures to ensure the disbursement has been approved by the relief association membership and that the goods or services have actually been received prior to making payment. Internal control procedures should also include oversight procedures for cash withdrawals and on-line electronic transfers. Such procedures should include a monthly bank reconciliation performed by someone independent of the disbursement function.
- Financial statements be prepared on an annual basis.
- Rosters of all relief association equipment owned be maintained.
- Annual inventories of equipment owned be performed.

Furthermore, Article 5, Section 1, of the relief association bylaws states: “Any temporary vacancies occurring among the officers of the association shall be filled in by an appointment by the president until the position shall be voted on at the next monthly meeting.”

LEWISBERRY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 prevents the relief association from adequately safeguarding its assets and prevents the verification as to whether relief association business was presented before the membership for discussion and approval. Furthermore, the lack of effective internal controls places the relief association funds at greater risk for misappropriation.

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

- Maintenance of sufficient documentation to support all receipts and expenditures.
- Implementation of oversight procedures for cash withdrawals and on-line electronic transfers. Such procedures should include monthly bank reconciliations performed by someone independent of the disbursement function.
- Preparation of annual financial statements.
- Maintenance of a complete and accurate roster of equipment purchased.
- Performance of annual inventories of all equipment owned.
- Timely replacements of any board officer positions.

For further guidance on proper operation procedures, 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 audit exit conference and indicated they will take action to comply with the recommendation.

LEWISBERRY 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. While a roster of relief association owned equipment was provided, the list did not contain dates of purchase, unit costs, or names of suppliers. As such, it was impossible to determine if all items purchased during the audit period had been recorded. In addition, there was no indication that the relief association was performing an inventory of all equipment owned, only on the vehicles.

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: Relief association officials failed 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 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.

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.

LEWISBERRY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported in Finding No. 1 may lead to a total withholding of state aid in the future unless the 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 406 Finance Building, Harrisburg, PA 17120.

LEWISBERRY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2009

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	\$ 2,791
Tokens of sympathy and goodwill	81
Total Benefit Services	\$ 2,872
Fire Services:	
Equipment purchased	\$ 22,838
Equipment maintenance	4,002
Training expenses	1,316
Fire prevention materials	97
Total Fire Services	\$ 28,253
Administrative Services:	
Miscellaneous administrative expenses	\$ 20
Total Administrative Services	\$ 20
Other Expenditures:	
Principal payments on lease-financing	\$ 10,324
Interest payments on lease-financing	1,153
Undocumented expenditures	47,684
Total Other Expenditures	\$ 59,161



LEWISBERRY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Lewisberry Volunteer Firefighters' Relief Association Governing Body:

Mr. William Wentz, President

Ms. Jennifer Cassada, Treasurer

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

Ms. Mary Ellen Banks, Secretary
Lewisberry Borough

Mr. Donald L. Keener, Secretary
Newberry 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.