



**VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
BOROUGH OF NESQUEHONING, CARBON COUNTY, PENNSYLVANIA**

HEREIN REFERRED TO AS:

NESQUEHONING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

CARBON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2008



CONTENTS

Background.....	1
Letter From the Auditor General	3
Finding and Recommendation:	
Finding – Failure to Segregate Relief Association Officers' Duties.....	5
Accompanying Expenditure Information	7
Report Distribution List	9



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

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>
Nesquehoning Borough	Carbon	\$20,625	\$21,430

BACKGROUND (Continued)

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

Hauto Volunteer Fire Company
Nesquehoning Hose Company No. 1, Inc.
New Columbus Fire Company

Mr. James Nardozzi, President
NESQUEHONING VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Carbon County

We have conducted a compliance audit of the Nesquehoning 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 Nesquehoning 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 Nesquehoning Volunteer Firefighters' Relief Association's recorded financial transactions, tests

of the physical existence of inventories, interviews of selected officials and direct confirmation of the Nesquehoning 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, in all significant respects, the Nesquehoning 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 finding discussed later in this report. The results of our tests indicated the Nesquehoning Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$29,046 and no investments.

Finding – Failure to Segregate Relief Association Officers' Duties

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

November 3, 2009

JACK WAGNER
Auditor General

NESQUEHONING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Failure to Segregate Relief Association Officers' Duties

Condition: During the audit engagement, we detected that the same individual holds the position of both secretary and treasurer within the relief association. As such, one individual is currently responsible for documenting the authorization of the relief association's financial transactions as well as recording and executing the relief association's financial transactions. In addition, during the current audit period, the relief association improperly amended their bylaws to permit the duties of the secretary and treasurer to be combined and to allow one individual to carry out the responsibilities charged to said positions of secretary and treasurer.

Criteria: Prudent business practice dictates that the duties of the secretary and treasurer be sufficiently segregated. Segregation of duties is the primary internal control intended to prevent or decrease the risk of errors or irregularities.

The minimum requirements of the secretary's position, pertaining to a relief association, are to maintain detailed minutes of meetings authorizing the relief association's financial operations. The secretary should review and coordinate the amending of the bylaws governing the relief association so that the bylaws meet the minimum requirements of Act 84.

The minimum requirements of the treasurer's position, pertaining to a relief association, are to maintain an account of all funds belonging to the relief association. The treasurer shall maintain a journal and ledger detailing all financial transactions of the relief association along with documentation supporting the receipts and disbursements. The treasurer should co-sign all negotiable instruments along with another relief association officer. Also, financial statements should be prepared at least on an annual basis by the treasurer.

Cause: Relief association officials were unaware that one person holding the position of both secretary and treasurer negates the internal controls associated with the segregation of duties.

Effect: An inadequate segregation of duties could prevent relief association officials and members from effectively monitoring the relief association's financial transactions. Additionally, it negates the checks and balances necessary to detect and correct financial errors or irregularities in the relief association's accounting system.

Recommendation: We recommend that the relief association review its accounting and internal control procedures to ensure that the duties being performed by the secretary and treasurer are sufficiently segregated so that relief association assets are adequately safeguarded. In addition, the relief association should amend its bylaws to state that the offices of secretary and treasurer be separate positions. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

NESQUEHONING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Relief association management agreed with the finding and indicated they will take action to comply with the recommendation.

NESQUEHONING 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	\$ 308
Total Benefit Services	\$ 308
Fire Services:	
Equipment purchased	\$ 9,620
Equipment maintenance	7,151
Training expenses	450
Total Fire Services	\$ 17,221
Administrative Services:	
Officer compensation	\$ 500
Total Administrative Services	\$ 500
Other Expenditures:	
Principal payments on loan	\$ 16,147
Interest payments on loan	1,096
Total Other Expenditures	\$ 17,243



NESQUEHONING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Nesquehoning Volunteer Firefighters' Relief Association Governing Body:

Mr. James Nardozzi, President

Mr. David Walls, Vice President

Mr. John P. McArdle, Secretary/Treasurer

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

Ms. Roni Sue Ahner, Secretary
Nesquehoning 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.