



ROHRERSTOWN FIRE COMPANY RELIEF ASSOCIATION

LANCASTER 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, 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 Rohrerstown Fire Company Relief Association, herein referred to as Rohrerstown 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 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. The Rohrerstown Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
East Hempfield Township	Lancaster	\$85,961	\$88,461	\$79,987

BACKGROUND (Continued)

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

Rohrerstown Fire Company

Mr. Michael N. Armer, President
ROHRERSTOWN VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lancaster County

We have conducted a compliance audit of the Rohrerstown 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, 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 Rohrerstown 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 Rohrerstown Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Rohrerstown 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 the Rohrerstown Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the five findings contained in our prior audit report. However, the Rohrerstown Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining three findings 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 Rohrerstown Volunteer Firefighters' Relief Association did not, in all significant respects, receive and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, 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 Rohrerstown Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$125,492 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Inadequate Signatory Authority for the Disbursement of Funds

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Finding No. 4 – Failure to Maintain Minutes of Meetings

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

March 11, 2010

JACK WAGNER
Auditor General

ROHRERSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Rohrerstown Volunteer Firefighters' Relief Association has complied with two of the five prior audit findings and recommendations:

- Failure to Maintain Officer's Bond Coverage

By obtaining officer's bond coverage, effective November 9, 2007, in an amount greater than the balance of cash assets.

- Failure to Maintain a Complete and Accurate Membership Roster

By maintaining a comprehensive listing of the relief association membership.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Rohrerstown Volunteer Firefighters' Relief Association has not complied with three of the five prior audit findings. These findings are detailed below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster
- Noncompliance With Prior Audit Recommendation –
Inadequate Signatory Authority for the Disbursement of Funds
- Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

While the Rohrerstown Volunteer Firefighters' Relief Association obtained reimbursement from the affiliated fire company in the amount of \$1,120 and provided adequate supporting documentation for the remaining \$535 identified as undocumented expenditures in the prior audit report, the relief association made additional expenditures that were not sufficiently documented during the current audit period. This issue is discussed further in Finding No. 3 of this report.

We are concerned with the volunteer firefighters' relief association's failure to correct previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

ROHRERSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our prior two audit reports, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While an equipment roster was provided during the current audit, the roster provided does not specify dates of purchase and does not consistently identify the name of supplier or unit cost. As a result, it was impossible to determine if the relief association's equipment purchases had been properly recorded. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all of the relief association's fixed assets.

Criteria: Sound business practice dictates 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 purchase;
- Unit costs;
- Names of suppliers;
- Serial numbers, if applicable;
- Current locations of items;
- Final dispositions of sold or damaged equipment; and
- Evidence of the performance and results of an annual physical inventory

In addition, the relief association's bylaws at Article IV, Page 8, states:

The president shall appoint a committee of not less than three corporation members who shall be charged with making a physical inspection, on at least an annual basis, of all equipment owned by the corporation. Upon completion of the physical inspection, the committee shall be required to make a full report at a regular membership meeting. The findings of this report shall be documented in the minutes.

Cause: While notified of this condition during our prior two audits, relief association officials, again, 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.

ROHRERSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

Recommendation: We again recommend the relief association officials establish adequate internal control procedures over fixed assets to ensure the maintenance of a cumulative equipment roster of all relief association owned equipment and the performance of an annual physical inventory of all operable equipment. We, again, further recommend that the results of the physical 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.

ROHRERSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Inadequate Signatory Authority for the Disbursement of Funds

Condition: As cited in the prior audit report, the signature of only one relief association officer was used to disburse relief association funds from the checking account, even though the signatures of at least two relief association officers are required. Specifically, we detected that 16 checks drawn on the relief association's checking account during the current audit period only contained the signature of one officer.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

In addition, Article IV, Section 4.14 of the relief association's bylaws states:

The signatures of at least two officers, one of whom shall be the treasurer, shall be required for the issuance of the corporation's checks, withdrawal from the savings account, redemption of any investment, or any other negotiable instrument issued by the corporation.

Furthermore, prudent business practice dictates that the relief association have sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Good internal control procedures require that checks be signed only after the propriety of the expenditures have been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contract, etc., prior to approving the checks.

Cause: While notified of this condition during our prior audit, relief association officials, again, neglected to establish adequate internal control procedures requiring the signatures of at least two officers on all negotiable instruments.

Effect: As a result of the relief association officer issuing checks with only one signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk for errors occurring and going undetected, and increases the risk of misappropriation.

ROHRERSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again recommend that relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118. 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 recommendations.

ROHRERSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Condition: As cited in the prior audit report, the relief association, again, neglected to maintain adequate supporting documentation for all association expenditures. Specifically, during the current audit period, the relief association disbursed funds for the following, without sufficient documentation:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
11/15/07	1165	Credit card provider	\$ 289
12/13/07	1172	Wireless phone provider	154
12/13/07	Debit	Online transfer	1,137
01/21/08	1177	Affiliated fire company	524
01/21/08	1181	Affiliated fire company	524
02/12/08	1186	Affiliated fire company	159
02/23/08	1197	County	100
05/05/08	1214	Training provider	175
08/11/08	1242	Community college	125
10/10/08	1316	Affiliated fire company	107
10/30/08	1323	Affiliated fire company	416
02/20/09	1345	Community college	200
04/14/09	1356	Loan provider	1,536
09/01/09	1403	Credit card provider	109
Total			<u>\$ 5,555</u>

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.

ROHRERSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Without adequate supporting documentation, such as invoices, training certificates, and detailed minutes of meetings, 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, neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices, training certificates, and detailed minutes of meetings made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). 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.

However, subsequent to the audit period, on May 25, 2010, the relief association received reimbursement in the amount of \$4,019 from the affiliated fire company and, on June 30, 2010, provided documentation to support the remaining \$1,536 in expenditures.

Recommendation: We again recommend that the relief association officials maintain appropriate supporting documentation for all future expenditures. 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.

ROHRERSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Maintain Minutes of Meetings

Condition: The relief association did not maintain minutes of meetings as required by Act 118. The relief association bylaws require regular relief association meetings following the fire company meeting. According to the relief association vice president, relief association meetings are held monthly. The vice president further stated that a relief association meeting is not held if a quorum is not present. If there is not a quorum, the minutes will state that a meeting was not held due to the lack of a quorum.

The relief association only provided minutes documenting 10 of the 36 required meetings for the current audit period. As a result, it was impossible to determine whether all of the financial-related transactions that occurred during the audit period were presented before the membership for approval.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

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

Cause: Relief association officials were unaware that maintaining minutes of meetings was required by Act 118.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend relief association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record of all financial-related business conducted by 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.

ROHRERSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Repeat conditions such as those reported in Finding Nos. 1, 2, and 3, along with the condition reported in Finding No. 4, may lead to a total withholding of state aid in the future unless the findings are corrected. However, such action will not be considered if sufficient documentation is provided within 60 days 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 316-D Finance Building, Harrisburg, PA 17120.

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

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	\$ 30,745
Relief benefits	7,511
Tokens of sympathy and goodwill	178
Total Benefit Services	\$ 38,434
Fire Services:	
Equipment purchased	\$ 190,665
Equipment maintenance	24,028
Training expenses	25,273
Fire prevention materials	1,489
Total Fire Services	\$ 241,455
Administrative Services:	
Miscellaneous administrative expenses	\$ 6,408
Total Administrative Services	\$ 6,408
Other Expenditures:	
Principal payments on loan	\$ 31,532
Interest payments on loan	5,470
Undocumented Expenditures	5,555
Total Other Expenditures	\$ 42,557

ROHRERSTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Rohrerstown Volunteer Firefighters' Relief Association Governing Body:

Mr. Michael N. Armer, President

Mr. Ankur Patel, Vice President

Mr. Zachary Race, Secretary

Mr. Kevin Morack, Treasurer

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

Mr. Robert S. Krimmel, Secretary
East Hempfield 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.