



**WHITEHALL TOWNSHIP VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION
OF LEHIGH COUNTY, PENNSYLVANIA**

HEREIN REFERRED TO AS:

WHITEHALL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

LEHIGH COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 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 Whitehall Township 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 Whitehall Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>
Whitehall Township	Lehigh	\$190,253	\$194,996

BACKGROUND (Continued)

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

Egypt Fire Company
Fullerton Fire Company
Hokendauqua Fire Company
Laurel Fire Company
West Catasauqua Fire Company
Whitehall Township Fire Police

Mr. Leonard J. Hoben III, President
WHITEHALL TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lehigh County

We have conducted a compliance audit of the Whitehall Township 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 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 Whitehall Township 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 Whitehall Township Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Whitehall Township 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, 2007 to December 31, 2008, found the Whitehall Township Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the findings contained in our prior audit report, as detailed below. In addition, the results of our audit found, in all significant respects, the Whitehall Township 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 later in this report. The results of our tests also indicated the Whitehall Township Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$132,481 and an investment balance with a fair value of \$1,367,624.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 3 – Duplicate Payment

Finding No. 4 – Failure to Maintain Officer's Bond Coverage

We also noted another matter that has been included in the following observation discussed later in this report.

Observation – Diversification of Investments

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

July 15, 2009

JACK WAGNER
Auditor General

WHITEHALL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Whitehall Township Volunteer Firefighters' Relief Association has not complied with the prior audit findings. These issues are listed below and further discussed in the findings listed below and noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

While the relief association provided documentation to support the \$208 made in the prior audit period, they again neglected to maintain adequate documentation for all current period expenditures as discussed in Finding No. 1 of this report.

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

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.

WHITEHALL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Condition: As cited in the prior two audit reports, the relief association again neglected to maintain adequate supporting documentation for all association expenditures. Specifically, during the current audit period, the relief association was unable to provide documentation to substantiate the validity of the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/09/07	1217	Health care provider	\$ 336
03/09/07	1222	Equipment vendor	1,376
07/28/08	1294	Member reimbursement	250
Total			<u>\$ 1,962</u>

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, 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 in the prior audit report, 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 invoices, made it impossible to determine if the expenditures were 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.

WHITEHALL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 (Continued)

Recommendation: We again recommend the relief association provide this department with adequate supporting documentation, such as invoices, to determine the validity of the expenditures or that the relief association be reimbursed \$1,962 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.

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.

WHITEHALL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the prior three audit reports, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. The relief association did not provide an updated roster which includes the equipment items purchased in the current audit period. While a roster was provided in the prior audit engagement, it was incomplete as it did not contain all equipment items purchased during the prior audit period either. Also, the dates of purchase were not included for any equipment items listed on the roster. In addition, equipment that had been sold, disposed of or became inoperable was not identified. Furthermore, there was no indication that an annual inventory of the equipment was performed to account for the relief association's fixed assets.

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; and
- Notation of the annual inventory.

Cause: While notified of this condition in the prior three audit reports, relief association officials neglected 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 inventory of equipment prevents adequate accountability and safeguarding of relief association assets.

WHITEHALL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again 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.

WHITEHALL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Duplicate Payment

Condition: On October 24, 2007, the relief association expended \$808 for the repair and cleaning of bunker gear. On January 22, 2008, the relief association erroneously made a duplicate payment for the same bunker gear cleaning and repair. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices.

Cause: The volunteer firefighters' relief association failed to establish internal control procedures which would require that all invoices or other billing documents be canceled or otherwise effectively marked to prevent duplicate payments.

Effect: As a result of this erroneous payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend the relief association be reimbursed \$808 for the erroneous duplicate payment. The relief association should consider contacting the vendor to recover the duplicate payment. In addition, the relief association should establish accounting and internal control procedures to monitor future relief association 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 and indicated they will take action to comply with the recommendation.

WHITEHALL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Maintain Officer's Bond Coverage

Condition: The relief association failed to maintain bond coverage on the disbursing officer as required by Act 84. Specifically, the relief association neglected to renew their bond policy which expired on February 1, 2008.

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: Relief association officials were unaware that the bond policy had lapsed and not been renewed.

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.

However, subsequent to the audit period, effective July 7, 2009, the relief association obtained bond coverage in the amount of \$1,000,000.

Recommendation: We recommend the relief association continue to maintain officer's bond coverage in an amount greater than the maximum cash balance as required by Act 84. 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.

WHITEHALL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act¹, it is the responsibility of the volunteer firefighters' relief association to invest its funds in a proper and prudent manner.

As these investments typically provide an income stream to the relief association for annual operations, it is generally sensible not to invest all VFRA money in one asset or asset class that places the principal at risk. In fact, state law requires VFRA's to "reasonably diversify investments, unless the [VFRA] reasonably determines that it is in the interest of the beneficiaries not to diversify..."².

By diversifying investments, the VFRA can help preserve capital, increase liquidity and decrease volatility. Diversification means spreading one's money among different investments; asset allocation diversifies total investments among different investment classes, such as stocks, bonds, government securities, and cash equivalents.

As of December 31, 2008, the VFRA had \$1,367,624 (fair value) or 91% of the VFRA's cash and investments in mutual funds.

The VFRA management should periodically review its specific cash needs and investment goals and ensure that its investments are allocated and diversified to prudently meet those needs and goals.

¹ 53 P.S. § 8506(c)(1997). This provision incorporates the "prudent investor rule" of the Probate, Estates, and Fiduciaries Code, 20 Pa. C.S.A. §7201 et seq.

² 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

WHITEHALL TOWNSHIP 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:	
Death benefits	\$ 52,500
Relief benefits	7,209
Total Benefit Services	\$ 59,709
Fire Services:	
Equipment purchased	\$ 216,685
Equipment maintenance	4,370
Training expenses	270
Fire prevention materials	860
Total Fire Services	\$ 222,185
Administrative Services:	
Officer compensation	\$ 4,550
Other administrative expenses	39,460
Total Administrative Services	\$ 44,010
Total Investments Purchased	\$ 1,337,769
Other Expenditures:	
Undocumented expenditures	\$ 1,962
Total Other Expenditures	\$ 1,962



WHITEHALL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Whitehall Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Leonard J. Hoben III, President

Mr. Dennis Scholtis, Vice President

Ms. Michelle Gillner-Schafer,
Secretary

Mr. Jonathan K. Hoerner, Treasurer

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

Mr. Paul F. Geissinger, Secretary
Whitehall 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.