



**FRIENDSHIP FIRE COMPANY NUMBER ONE OF GEIGERTOWN RELIEF
ASSOCIATION**

HEREIN REFERRED TO AS:

GEIGERTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2004 TO DECEMBER 31, 2006



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

<u>Municipality</u>	<u>County</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Robeson Township	Berks	\$21,445	\$24,498	\$25,054

BACKGROUND (Continued)

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

Friendship Fire Company No. 1 of Geigertown

Mr. G. Frank Arters, IV, President
GEIGERTOWN VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Berks County

We have conducted a compliance audit of the Geigertown 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, 2004 to December 31, 2006. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the finding 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 Geigertown 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 applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objectives. We also tested transactions, confirmed the Geigertown Volunteer Firefighters' Relief Association's cash balance as of December 31, 2006, with the custodian of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our audit for the period January 1, 2004 to December 31, 2006, found, in all significant respects, the Geigertown 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 findings discussed later in this report. The results of our tests indicated the Geigertown Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2006, had a cash balance of \$25,792 and no investments.

Finding No. 1 – Unauthorized Expenditures

Finding No. 2 – Untimely Deposit of State Aid

Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds

Finding No. 4 – Inappropriate Presigning of Blank Checks

Finding No. 5 – Failure to Maintain a Complete and Accurate Equipment Roster

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

November 29, 2007

JACK WAGNER
Auditor General

GEIGERTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Undocumented Expenditure

By receiving reimbursement from the affiliated fire company on April 12, 2005, in the amount of \$502, for the undocumented expenditure that was made in the prior financial period.

GEIGERTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

Condition: The relief association expended a total of \$7,397 for life insurance premiums, which are not authorized by Act 84. During the current audit period, the relief association expended \$5,626 and expended an additional \$1,771, subsequent to the period under review, for premiums on life insurance policies owned by individual relief association members. Because the relief association was not the owner of these insurance policies, these expenditures are not considered authorized by Act 84.

Criteria: Act 84 at 53 P.S. § 8506(e)(2 and 3) states:

The funds of any volunteer firefighters' relief association may be spent:

- (2) To purchase contracts of insurance which shall at the least afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and which may also provide in the order named, (i) for payments to the widow or other dependents of a member in the event of his death, (ii) for protection of active firemen against disease, (iii) for the replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches, and the like, where such devices have been lost or damaged while the owner was engaged in the fire service or where the need for such devices arises because of functional impairment attributable to participation in the fire service, (iv) for the repair or replacement if necessary of articles of clothing or pocket pagers damaged in the course of participation in the fire service, and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.
- (3) To maintain a beneficiary or death benefit fund and to pay a sum certain from that fund to the beneficiary of any participant in that fund upon his death. In the event a beneficiary is not designated or a designated one has predeceased the participant, the sum certain shall be paid to the estate of the participant.

Since the Department of the Auditor General is legislatively prohibited from giving pre-audit advice, an interagency agreement with the Department of Community and Economic Development (DCED) had been established whereby the DCED provided interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." Premiums for life insurance policies have been deemed by DCED to not qualify as authorized expenditures when the policies are owned by individual relief association members and not by the relief association itself. Consequently, the disbursements for these specific life insurance premiums are not authorized under Act 84.

GEIGERTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Relief association officials were unaware that the expenditures for these types of life insurance premiums were not authorized by Act 84.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 84.

However, subsequent to the period under review, on May 27, 2008, the relief association received full reimbursement from the affiliated fire company, in the amount of \$7,397, for the unauthorized expenditures.

Recommendation: We recommend that the relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) to aid them in determining the propriety of 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.

GEIGERTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Untimely Deposit of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2005 state aid allocation it received from Robeson Township, in the amount of \$24,498, until January 9, 2006.

Criteria: The foreign fire insurance tax allocation was distributed to the municipal treasurer, who is required to forward this state aid to the volunteer firefighters' relief association treasurer within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Upon receipt of the state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

Cause: The relief association received the 2005 state aid check from Robeson Township on October 17, 2005. However, the check was made payable to the fire company and not the relief association. The relief association contacted the Robeson Township municipal secretary to have the check re-issued in the name of the relief association. The replacement check was made payable to the relief association on November 15, 2005. The relief association offered no further explanation of the late deposit.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts can lead to a greater risk that funds could be lost or misappropriated.

Recommendation: We recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. 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.

GEIGERTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds

Condition: The signature of only one relief association officer was used to disburse relief association funds from the checking account, although the signatures of at least two relief association officers are required. During the current audit, we detected that 30 of the 165 checks drawn on the relief association's checking account during the current financial period only contained the signature of one officer. Subsequent to the period under review, we detected 4 additional checks that only contained the signature of one officer.

Criteria: Act 84 at 53 P.S. § 8505(c) 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 in order to bind the association by formal contract or to issue any negotiable instrument.

Cause: Relief association officials were unaware of the Act 84 stipulation, which requires the signatures of at least two officers for the disbursement of funds.

Effect: As a result of the relief association not obtaining two signatures for all disbursements, assets were placed at greater risk of misappropriation.

Recommendation: We recommend the relief association officials adopt procedures which would require the signatures of at least two officers on all relief association negotiable instruments, 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.

GEIGERTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inappropriate Presigning of Blank Checks

Condition: A review of the relief association's checkbook revealed that three blank checks were presigned by one of the two relief association officials who are authorized to sign checks. The presigning of blank checks negates the relief association's internal control over the disbursement process.

Criteria: Checks should be signed and co-signed only after each authorized person has reviewed and approved the nature, purpose, and propriety of each expenditure.

Cause: The relief association failed to establish internal control procedures to prevent the presigning of blank checks.

Effect: The practice of presigning blank checks prevents the relief association from maintaining an adequate segregation of duties necessary to ensure the proper safeguarding of its assets.

Recommendation: We recommend that the practice of presigning blank checks be immediately discontinued. Furthermore, checks prepared for each expenditure should accompany the invoice and any other supporting documentation. This will enable each authorized official to review the nature, purpose, and propriety of each expenditure prior to signing the check. 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.

GEIGERTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – 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, it was not cumulative and it was not possible to determine if all items purchased during the current audit period had been accurately recorded. The roster provided did not contain any equipment purchased in 2002 and did not contain accurate dates of purchase, unit costs, or serial numbers, where available, to accurately identify the equipment owned. In addition, 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.
- 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.

GEIGERTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (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.

GEIGERTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2006

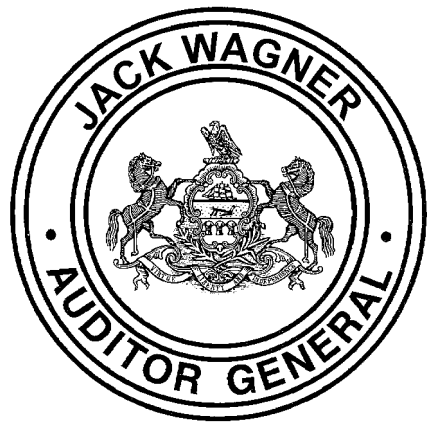
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 12,701
Tokens of sympathy and goodwill	195
Total Benefit Services	\$ 12,896
Fire Services:	
Equipment purchased	\$ 67,655
Equipment maintenance	4,182
Training expenses	4,004
Total Fire Services	\$ 75,841
Administrative Services:	
Miscellaneous administrative expenses	\$ 492
Total Administrative Services	\$ 492



GEIGERTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Geigertown Volunteer Firefighters' Relief Association Officers:

Mr. G. Frank Arters, IV, President

Mr. K. William Rapp, Secretary

Mr. Scott Gullo, Treasurer

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

Mr. Galen L. Brown, Secretary
Robeson 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.