



LAKE ARIEL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

WAYNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 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 Lake Ariel 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 Lake Ariel Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Lake Township	Wayne	\$31,285	\$35,539	\$36,831
South Canaan Township	Wayne	\$ 5,924	\$ 6,405	\$ 6,580

BACKGROUND (Continued)

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

Lake Ariel Fire Company

Mr. Derrick F. Pfister, President
LAKE ARIEL VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Wayne County

We have conducted a compliance audit of the Lake Ariel 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, 2006 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 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 Lake Ariel 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 Lake Ariel Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2008, with the custodians 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, 2006 to December 31, 2008, found, in all significant respects, the Lake Ariel 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 Lake Ariel Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$64,228 and an investment balance with a fair value of \$20,247.

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

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Insufficient Officer's Bond Coverage

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

February 3, 2009

JACK WAGNER
Auditor General

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Lake Ariel Volunteer Firefighters' Relief Association has not complied with the prior audit finding. This issue is further discussed in the following finding noted in the Findings and Recommendations section 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 finding. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

LAKE ARIEL 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 the prior audit report, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. The relief association provided listings of equipment; however, they were in various formats, most of which did not include dates of purchase, unit costs, or vendor names. In addition, serial numbers were not always provided to accurately identify the equipment owned. As such, it was impossible to determine if all items purchased during the audit period were recorded. Furthermore, the listings provided appear to include equipment owned by the fire company and do not indicate that an annual inventory was conducted.

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: While notified of this condition in the prior audit report, 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 equipment inventory prevents adequate accountability and safeguarding of relief association assets.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended a total of \$1,922 for the premiums on the fire company's property insurance and crime policy, which are not authorized by Act 84.

Criteria: Act 84 at 53 P.S. § 8506(e)(8 and 12) state:

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

- (8) To contribute or to purchase contracts of insurance which will contribute towards the costs of rehabilitating and retraining volunteer firefighters who by reason of their participation in the fire service have suffered a major impairment of their ability to continue their vocation.

- (12) To secure insurance against the legal liability of the volunteer firefighters for loss and expense from claims arising out of the performance of their official, authorized duties while going to, returning from or attending fires or while performing their duties as special fire police.

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." The above insurance premiums have been deemed by DCED to not qualify as authorized insurance expenditures since the insurance does not directly protect the volunteer firefighters; consequently, these disbursements for fire company insurance premiums are not authorized under Act 84.

Cause: Relief association officials were unaware that the aforementioned expenditures 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 audit period, on March 3, 2009, the relief association received reimbursement, in the amount of \$1,922, from the affiliated fire company for the unauthorized expenditures.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend 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.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Insufficient Officer's Bond Coverage

Condition: The relief association did not maintain a bond in a sufficient amount to cover the authorized disbursing officer. The relief association's bond coverage was \$50,000; however, as of December 31, 2008, the cash assets totaled \$64,228.

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 failed to monitor the cash balance to ensure the officer's bond coverage was in compliance with Act 84 provisions.

Effect: As a result of the disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend the relief association ensure that a faithful performance bond adequately covers the disbursing officer, as required by Act 84. This requirement may be accomplished by increasing the officer's bond coverage to an amount greater than the expected maximum balance of cash assets, or by decreasing the cash assets to an amount anticipated to remain below the coverage amount. Relief association officials should monitor the cash balance to ensure that unexpected events affecting current funds do not again result in an insufficient officer's bond coverage. 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.

LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

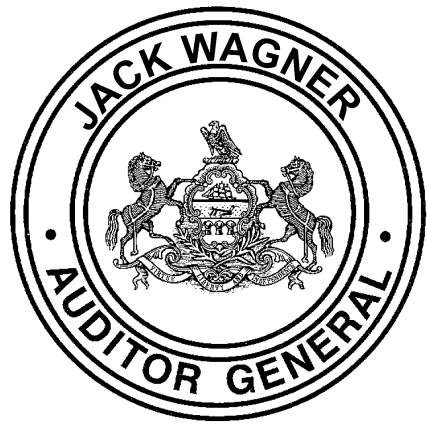
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 16,202
Tokens of sympathy and goodwill	100
Total Benefit Services	\$ 16,302
Fire Services:	
Equipment purchased	\$ 72,868
Equipment maintenance	12,483
Training expenses	422
Fire prevention materials	1,046
Total Fire Services	\$ 86,819
Administrative Services:	
Miscellaneous administrative expenses	\$ 198
Total Administrative Services	\$ 198
Total Investments Purchased	\$ 5,000



LAKE ARIEL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Lake Ariel Volunteer Firefighters' Relief Association Officers:

Mr. Derrick F. Pfister, President

Ms. Heidi Clauss, Secretary

Ms. Lyndsay Birmelin, Treasurer

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

Mr. Frederic A. Birmelin, Secretary
Lake Township

Ms. Cheryl A. Lewis, Secretary
South Canaan 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.