

COMPLIANCE AUDIT

The Volunteer Firemen's Relief Association Of Lower Mahanoy Fire Company

Northumberland County, Pennsylvania

For the Period

January 1, 2011 to December 31, 2013

June 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. James Bohner, President
LOWER MAHANOHY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Northumberland County

We have conducted a compliance audit of the Lower Mahanoy 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, 2011 to December 31, 2013.

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 state aid 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 Lower Mahanoy 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 Lower Mahanoy Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Lower Mahanoy Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2013, 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, 2011 to December 31, 2013, found the Lower Mahanoy Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the findings contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Lower Mahanoy Volunteer Firefighters' Relief Association, in all significant respects, received state aid and expended state aid and accumulated relief 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.

- Finding No. 1 – Noncompliance With Prior Audit Recommendation-Inadequate Relief Association Bylaws
- Finding No. 2 – Noncompliance With Prior Audit Recommendation-Failure To Maintain A Complete And Accurate Equipment Roster
- Finding No. 3 – Untimely Deposit Of State Aid
- Finding No. 4 – Failure To Maintain A Complete And Accurate Membership Roster

The results of our tests also indicated the Lower Mahanoy Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$317 and no investments.

Furthermore, a scope limitation on our audit exists, as detailed in the Observation section of this report.

The contents of this report were discussed with the management of the Lower Mahanoy Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

May 26, 2015

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

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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 Volunteer Firemen's Relief Association Of Lower Mahanoy Fire Company, herein referred to as the Lower Mahanoy 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.

BACKGROUND – (Continued)

The Lower Mahanoy Volunteer Firefighters’ Relief Association was allocated state aid from the following municipalities:

| <u>Municipality</u> | <u>County</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|-------------------------|----------------|-------------|-------------|-------------|
| Little Mahanoy Township | Northumberland | \$ 808 | \$ 458 | \$ 484* |
| Lower Mahanoy Township | Northumberland | \$8,037 | \$4,580 | \$5,135* |

* The 2013 state aid allocations received from Little Mahanoy Township and Lower Mahanoy Township were not deposited by the Lower Mahanoy Volunteer Firefighters’ Relief Association until January 6, 2014 as disclosed in Finding No. 3 in this report.

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

Lower Mahanoy Fire Company

LOWER MAHANOY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Lower Mahanoy Volunteer Firefighters' Relief Association has not complied with the following prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Inadequate Relief Association Bylaws
- Failure To Maintain A Complete And Accurate Equipment Roster

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

LOWER MAHANOY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws

Condition: As cited in our prior two audit reports, the existing bylaws of the Lower Mahanoy Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not accurately describe the various classes of relief association members as required by Act 118 and appear to extend death benefits to social members, which is not authorized by Act 118. The relief association's bylaws extend membership to all paid members of the Lower Mahanoy Fire Company of Dalmatia, PA as social members. Because the relief association bylaws provide for payment of a death benefit to any member in "good standing" for five years, benefits may be extended to individuals who have not actively participated in the fire service, which is not considered authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(1) states, that the relief association's bylaws shall:

- (1) Specify the requirements for securing membership, voting rights of different classes of members, if there be different classes, and conditions under which membership may be terminated.

In addition, Act 118 at 35 Pa.C.S. § 7416(f)(2)(i) states:

- (i) Relief association funds may be spent for payments to the surviving spouse or other dependents of a member in the event of the member's death.

However, Article III of the relief association's bylaws, states:

The membership shall consist of the entire membership of the Lower Mahanoy Fire Company of Dalmatia, PA.

In addition, Article VII, Section 4, of the relief association's bylaws, states:

The association shall provide a death benefit in the amount of \$100 to the beneficiary of said member in good standing of five years.

Cause: Even though notified of this condition during our prior two audits, relief association officials once again neglected to amend the relief association bylaws to meet the bylaw provisions required by Act 118.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

LOWER MAHANOHY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We once again recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of 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.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report. Compliance will be subject to verification through our next audit.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: As cited in our prior audit report, the relief association again failed to maintain a complete and accurate roster of equipment owned by the relief association. Although listings of relief association owned equipment were provided during the current audit period, they were incomplete. Specifically, the one listing included items that were purchased by the affiliated fire service organization and did not contain dates of purchase, cost of equipment and serial numbers. The other listing did not contain the names of suppliers (vendors), dates of purchase, and cost of equipment to accurately identify equipment owned by the relief association. As such, it was impossible to determine if all equipment purchased during the audit period in the amount of \$15,792 was recorded. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

LOWER MAHANAY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Prudent business practice dictates that 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 equipment. A cumulative equipment roster of all relief association equipment should include all of 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
- Evidence of the performance and results of an annual physical inventory

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The continued 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 equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We again recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of 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.

LOWER MAHANOY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report. Compliance will be subject to verification through our next audit.

Finding No. 3 – Untimely Deposit Of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2013 state aid allocations it received from Little Mahanoy Township and Lower Mahanoy Township in the amounts of \$484 and \$5,135, respectively, until January 6, 2014. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 23, 2013, who forwarded this state aid to the volunteer firefighters' relief association on October 1, 2013 and October 15, 2013, respectively, which is 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.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practices dictate that upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: Relief association officials failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner. Relief association management indicated that the state aid allocations were erroneously deposited into an account of the affiliated fire service organization.

LOWER MAHANOHY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

Finding No. 4 – Failure To Maintain A Complete And Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members' mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials indicated that they were unaware that they should maintain a comprehensive roster of relief association members.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers or deprive eligible relief association members from receiving authorized benefit payments.

LOWER MAHANAY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

LOWER MAHANAY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Scope Limitation

The Lower Mahanoy Volunteer Firefighters' Relief Association (VFRA) does not maintain canceled or imaged checks. While the VFRA provided bank statements, the VFRA failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we could not determine whether two VFRA officers authorized and signed the checks.

Act 118 at 35 Pa.C.S. § 7415(c)(3) requires 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.

Act 118 at 35 Pa.C.S. § 7418(a) provides that the Department of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association . . . 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.

Generally Accepted Government Auditing Standards (GAGAS) Section No. 6.56 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 6.61(f) states, "Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity."

Our inability to review canceled or imaged checks constitutes a scope limitation on our audit.

LOWER MAHANOHY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2011 TO DECEMBER 31, 2013

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 | \$ 250 |
| Fire Services: | |
| Equipment purchased | \$ 15,792 |
| Equipment maintenance | 1,488 |
| Training expenses | 1,452 |
| Total Fire Services | \$ 18,732 |

LOWER MAHANOY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Lower Mahanoy Volunteer Firefighters' Relief Association Governing Body:

| | |
|----------------------------|----------------|
| Mr. James Bohner | President |
| Mr. James Smink | Vice President |
| Ms. Melissa Claire Ritzman | Secretary |
| Mr. Randy Schaffner | Treasurer |

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report:

| | |
|---|-----------|
| Ms. Lisa Williard Little Mahanoy Township | Secretary |
| Ms. Carol J. Witmer Lower Mahanoy Township | Secretary |

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.