

COMPLIANCE AUDIT

Heidelberg Fireman's Goodwill Relief Association Lehigh 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. Kyle Smith, President
HEIDELBERG VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lehigh County

We have conducted a compliance audit of the Heidelberg 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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Heidelberg 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Heidelberg Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Heidelberg 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 objective. 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 objective.

The results of our audit, for the period January 1, 2011 to December 31, 2013, found the Heidelberg 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 – Inadequate Signatory Authority for the Disbursement of Funds


Finding No. 2 – Untimely Deposit of State Aid

The results of our tests also indicated the Heidelberg Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$38,455 and an investment balance with a fair value of \$41,599.

Furthermore, two scope limitations on our audit exist, as detailed in the Observations section of this report.

The contents of this report were discussed with the management of the Heidelberg 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.

April 5, 2015


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 Heidelberg Fireman's Goodwill Relief Association, herein referred to as the Heidelberg 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 Heidelberg 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>
Heidelberg Township	Lehigh	\$38,752	\$22,092*	\$25,041
Lowhill Township	Lehigh	\$ 6,319	\$ 3,602*	\$ 4,112

* The 2012 state aid allocations received from Heidelberg Township and Lowhill Township were not deposited by the Heidelberg Volunteer Firefighters’ Relief Association until January 14, 2013 as disclosed in Finding No. 2 in this report.

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

Goodwill Fire Company No. 1

HEIDELBERG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 40 out of 104 checks drawn on the relief association's checking account that only contained the signature of one officer, even though two signatures are required by Act 118 and the relief association bylaws. Issuing checks with the signature of only one officer negates the relief association's internal control over the disbursement process.

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 5 Section 1, of the relief association's bylaws states:

The president shall preside over all meetings of the Association and maintain order and decorum, sign checks and vouchers on the treasurer for such sums of money as has been ordered to be paid by the Association, appoint all committees and shall have the deciding vote on all matters and questions on which the Association shall be equally divided, but shall not vote at any other time except at the election of officers. He/she shall also counter-sign all checks issued by the Treasurer.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has 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, contracts, etc., prior to approving the checks.

Cause: Relief association officials neglected to establish adequate internal control procedures that require 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 of misappropriation and the risk of errors occurring and going undetected.

HEIDELBERG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the 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 recommendation.

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

Finding No. 2 – Untimely Deposit Of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2012 state aid allocations it received from Heidelberg Township and Lowhill Township, in the amounts of \$22,092 and \$3,602, respectively, until January 14, 2013. The foreign fire insurance tax allocations were distributed to both municipal treasurers on September 21, 2012. The state aid from Heidelberg Township was forwarded to the volunteer firefighters' relief association on October 11, 2012 while the state aid from Lowhill Township was forwarded to the volunteer firefighters' relief association on November 1, 2012, 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.

HEIDELBERG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner.

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.

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.

HEIDELBERG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATIONS

Observation No. 1 – Scope Limitation

The Heidelberg Volunteer Firefighters' Relief Association (VFRA) did not maintain 11 out of 104 canceled or imaged checks. While the VFRA provided bank statements, the VFRA failed to provide copies of the canceled or imaged checks. Without copies of the 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 the 11 canceled or imaged checks constitutes a scope limitation on our audit.

HEIDELBERG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATIONS

Observation No. 2 – Scope Limitation

A portion of the Heidelberg Volunteer Firefighters' Relief Association's (VFRA) investment balance totaling \$3,162 of the total reported investment balance of \$41,599 as of December 31, 2013 could not be confirmed. While we received a confirmation of a \$38,437 investment account balance, the remaining balance of \$3,162 was not confirmed by a separate financial institution. Two separate requests for an independent confirmation of this account balance were made on January 13, 2015 and February 4, 2015 to the financial institution which held the VFRA investment account. While the VFRA provided a December 31, 2013 financial institution account statement detailing this investment account balance, the financial institution failed to provide an independent confirmation of the investment account balance.

Act 118 at 35 Pa.C.S. § 7418(a) states, in part, that 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 . . . 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."

Even though we made several requests, a confirmation of the balance of this investment account balance was not provided by the respective financial institution.

Our inability to confirm a portion of the VFRA's total investment balance constitutes a scope limitation on our audit, as this scope limitation prevented us from verifying a portion of the VFRA's reported investment balance of \$3,162 as of December 31, 2013.

HEIDELBERG 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	\$ 14,964
Fire Services:	
Equipment purchased	\$ 53,556
Equipment maintenance	10,568
Training expenses	8,643
Fire prevention materials	1,741
Total Fire Services	\$ 74,508
Administrative Services:	
Officer compensation	\$ 1,200
Other administrative expenses	415
Total Administrative Services	\$ 1,615
Total Investments Purchased	\$ 13,000

HEIDELBERG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Heidelberg Volunteer Firefighters' Relief Association Governing Body:

Mr. Kyle Smith	President
Mr. Kyle Watson	Vice President
Mr. John Fritz	Secretary
Mr. Randy Metzger	Treasurer

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

Ms. Janice M. Meyers Heidelberg Township	Secretary
Ms. Jill Seymour Lowhill 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@auditor.gen.state.pa.us.