

COMPLIANCE AUDIT

Manheim Township Fire Rescue Volunteer Firefighters' Relief Association

Lancaster County, Pennsylvania

For the Period

February 22, 2010 to December 31, 2013

March 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Steve Leayman, President
MANHEIM TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lancaster County

We have conducted a compliance audit of the Manheim 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, 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 February 22, 2010 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 Manheim Township 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 Manheim 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 Manheim Township 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 February 22, 2010 to December 31, 2013, found the Manheim Township 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 for the unauthorized cash withdrawals described on page 8 of this report and as noted in the findings listed below and discussed later in this report.

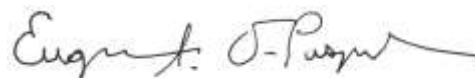
Finding No. 1 – Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

The results of our tests also indicated the Manheim Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$402,817 and an investment balance with a fair value of \$309,923.

The contents of this report were discussed with the management of the Manheim Township 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.

February 13, 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 Manheim Township Fire Rescue Volunteer Firefighters' Relief Association, herein referred to as the Manheim 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 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 Manheim Township Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Manheim Township	Lancaster	\$312,491	\$506,516	\$285,948	\$325,114

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

Eden Fire Company No.1

Neffsville Community Fire Company No. 1

Southern Manheim Township Fire Company

The Manheim Township Volunteer Firefighters’ Relief Association began operations on February 22, 2010. Prior to beginning operations, the Manheim Township Volunteer Firefighters’ Relief Association received monetary assets and/or equipment from the former Eden, Neffsville, and Southern Manheim Township Volunteer Firefighters’ Relief Associations after their formal dissolutions and subsequent merger into Manheim Township Volunteer Firefighters’ Relief Association. The former Eden and Neffsville Volunteer Firefighters’ Relief Associations’ final audit reports were in compliance with all applicable state laws, contracts, bylaws and administrative procedures. However, we were concerned with the former Southern Manheim Township Volunteer Firefighters’ Relief Associations’ failure to correct previously reported audit findings and we recommended that the Manheim Township Volunteer Firefighters’ Relief Association management strive to implement the recommendations and corrective actions noted in the former Southern Manheim Township Volunteer Firefighters’ Relief Association’s final audit report. The Manheim Township Volunteer Firefighters’ Relief Association’s corrective actions are discussed in the Status of Prior Findings section of this report.

MANHEIM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS OF THE
FORMER SOUTHERN MANHEIM VOLUNTEER FIREFIGHTERS' RELIEF
ASSOCIATION

Due to the dissolution of the former Eden, Neffsville and Southern Manheim Township Volunteer Firefighters' Relief Associations, officials of the Manheim Township Volunteer Firefighters' Relief Association were provided copies of the final close-out audit reports so that officials were made aware of the conditions that were detected in the operations of the former Eden, Neffsville, and Southern Manheim Township Volunteer Firefighters' Relief Associations during the course of their audits. The final audits of the former Eden and Neffsville Volunteer Firefighters' Relief Associations found that those two relief associations were in compliance with all applicable state laws, contracts, bylaws, and administrative procedures. The Manheim Township Volunteer Firefighters' Relief Association has complied with two of the prior audit findings and recommendations of the former Southern Manheim Township Volunteer Firefighters' Relief Association as described below:

- Undocumented Expenditures

By receiving reimbursement from the affiliated fire company, in the amount of \$711, for the undocumented expenditures that were made in the prior audit period; and

- Unauthorized Expenditures

By receiving reimbursement from the affiliated fire company, in the amount of \$11,942, for the unauthorized expenditures that were made in the prior audit period;

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION OF THE
FORMER SOUTHERN MANHEIM VOLUNTEER FIREFIGHTERS' RELIEF
ASSOCIATION

The Manheim Township Volunteer Firefighters' Relief Association has not complied with the following prior audit finding disclosed in the final close-out audit report of the former Southern Manheim Township Volunteer Firefighters' Relief Association. This finding is noted below and disclosed in Finding No.1 contained in this report:

- Failure To Maintain A Complete And Accurate Equipment Roster

MANHEIM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit period, this listing was incomplete since it 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, we were unable to determine if all of the equipment purchased during the audit period, in the amount of \$610,937, was appropriately 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.

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 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: Relief association officials failed to establish adequate internal control procedures over equipment requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

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 physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

MANHEIM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend 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.

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

Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$300,000; however, as of December 31, 2013, the relief association's cash assets totaled \$402,817.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the 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 the bond shall be a proper charge against the funds of the association.

Cause: Relief association officials failed to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

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

MANHEIM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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.

MANHEIM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD FEBRUARY 22, 2010 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	\$ 173,056
Death benefits	24,500
Relief benefits	17,514
Total Benefit Services	\$ 215,070
Fire Services:	
Equipment purchased	\$ 610,937
Equipment maintenance	125,503
Training expenses	82,592
Fire prevention materials	24,176
Total Fire Services	\$ 843,208
Administrative Services:	
Other Administrative Services	\$ 23,732
Total Investments Purchased	\$ 125,000
Other Expenditures:	
Principal payments on lease-financing	\$ 64,583
Interest payments on lease-financing	52,527
Unauthorized cash withdrawals *	5,655
Total Other Expenditures	\$ 122,765

MANHEIM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD FEBRUARY 22, 2010 TO DECEMBER 31, 2013

* The unauthorized cash withdrawals of \$5,655 were discovered by the Manheim Township's Finance Department during a reconciliation of the relief association's 2013 bank statements. The relief association's bylaws state that the treasurer will oversee the relief association's books and records that are maintained by the Manheim Township Finance Department. The cash withdrawals began on or about July 12, 2013 to November 11, 2013 and consisted of 14 separate withdrawals. The relief association was informed of the unauthorized withdrawals and a special meeting was held. The former treasurer confessed to the crime and was fired. The relief association's board closed the bank accounts, opened new accounts, assigned new check signers, and removed the former treasurer's access to any relief association accounts. The relief association rectified the situation in a timely manner by implementing appropriate internal controls to minimize the risk. Due to the fact that the relief association identified the withdrawals prior to the commencement of the audit and the compensating internal controls present, no finding was deemed necessary. The case has been turned over to the District Attorney in Lancaster County. The relief association received a claim in the amount of \$5,655 from their Surety (Fidelity) bond insurance company, and the amount was deposited into the relief association's checking account on March 7, 2014.

MANHEIM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Manheim Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Steve Leayman	President
Mr. Jeffrey Ober	Vice President
Mr. Anthony Shoffstall	Secretary
Ms. Melissa Templeton	Treasurer

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

Mr. Sean P. Molchany Manheim Township	Secretary
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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@auditorgen.state.pa.us.