

COMPLIANCE AUDIT

Weisenberg Township Volunteer Fireman's Relief Association

Lehigh County, Pennsylvania

For the Period

January 1, 2008 to December 31, 2013

October 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. William Wolford, President
WEISENBERG VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lehigh County

We have conducted a compliance audit of the Weisenberg 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 January 1, 2008 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 Weisenberg 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 Weisenberg 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 Weisenberg 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 January 1, 2008 to December 31, 2013, found the Weisenberg 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 as noted in the findings listed below and discussed later in this report.


Finding No. 1 – Inadequate Internal Controls

Finding No. 2 – Failure To Obtain Surety (Fidelity) Bond Coverage

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

The results of our tests also indicated the Weisenberg 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 \$15,181 and no investments.

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



EUGENE A. DEPASQUALE
Auditor General

October 20, 2014

CONTENTS

	<u>Page</u>
Background	1
Findings and Recommendations:	
Finding No. 1 – Inadequate Internal Controls	3
Finding No. 2 – Failure To Maintain Surety (Fidelity) Bond Coverage	4
Finding No. 3 – Inadequate Signatory Authority For The Disbursement Of Funds	5
Accompanying Expenditure Information	7
Report Distribution List	8

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 Weisenberg Township Volunteer Fireman's Relief Association, herein referred to as the Weisenberg 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 Weisenberg Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Lowhill Township	Lehigh	\$ -	\$ -	\$ 6,319	\$ 3,602	\$ 4,112
Weisenberg Township	Lehigh	\$27,722	\$35,660	\$73,744	\$41,568	\$47,112

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

Weisenberg Township Volunteer Fire Department

WEISENBERG TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Internal Controls

Condition: The relief association has failed to establish adequate internal controls. The following material internal control weaknesses existed during the audit period:

- Membership meetings were conducted infrequently;
- Original invoices were not required prior to the payment of purchases;
- Financial related activities were not presented, discussed, and approved at relief association meetings;
- Detailed minutes of meetings were not maintained; and
- Periodic physical inventories of equipment owned were not performed.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

.... must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

Furthermore, prudent business practice dictates that:

- Meetings should be conducted more frequently than quarterly;
- Original invoices shall be required prior to payment of purchases;
- All purchases shall be presented to the association membership for discussion and approval;
- Detailed meeting minutes must be maintained to accurately document relief association business; and
- Periodic physical inventories of equipment owned.

Cause: The relief association failed to establish adequate internal controls to ensure the propriety of expenditures and proper documentation of relief association transactions. The relief association officials were unaware of the relief association's ineffective internal control system.

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets and prevented the verification as to whether relief association business was presented before the membership for discussion and approval. Furthermore, the lack of effective internal controls places the relief association funds at greater risk for misappropriation.

WEISENBERG TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend the relief association officials adopt internal control procedures which will require the following:

- More frequent membership meetings;
- Payment of purchases only from original invoices;
- Presentation, discussion, and approval of financial activities at relief association meetings;
- Maintenance of detailed meeting minutes;
- Periodic physical inspections of equipment owned; and
- Documentation of all expenditures.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION.

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 – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. As of December 31, 2013, the relief association's cash assets totaled \$15,181.

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 were unaware of the Act 118 provision requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer.

WEISENBERG TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

Recommendation: We recommend that the relief association officials maintain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required 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 subsequent to the current audit period, obtained (Surety) Fidelity bond coverage for the authorized disbursing officer in the amount of \$100,000.

Auditor's Conclusion: It appears that the relief association has complied with our finding recommendation. Compliance will be subject to verification in the subsequent audit period.

Finding No. 3 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit period, we identified 49 checks out of 60 checks drawn on the relief association's checking account that only contained the signature of one officer, even though two signatures are required, pursuant to 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 VIII Section 1, of the relief association's bylaws states:

The signatures of two officers, one of which shall be the treasurer, shall be required for the issuance of Relief Association checks.

WEISENBERG TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 which 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 for errors occurring and going undetected, and reduces the risk of misappropriation.

Recommendation: We recommend 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 authorized disbursing officer, 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. The relief association started issuing checks with dual signatures in August 2013.

Auditor's Conclusion: It appears that the relief association has complied with our finding recommendation. Compliance will be subject to verification in the subsequent audit period.

WEISENBERG TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2008 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	\$ 8,056
Relief benefits	<u>1,377</u>
Total Benefit Services	<u>\$ 9,433</u>

Fire Services:

Equipment purchased	\$ 205,935
Equipment maintenance	6,940
Training expenses	<u>3,750</u>
Total Fire Services	<u>\$ 216,625</u>

WEISENBERG TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Weisenberg Township Volunteer Firefighters' Relief Association Governing Body:

Mr. William Wolford	President
Mr. Dave Beitler	Vice President
Mr. Franklin Bartholomew	Secretary
Mr. Jason Yeakel	Treasurer

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

Ms. Jill Seymour Lowhill Township	Secretary
Mr. Brian C. Carl Weisenberg Township	Secretary

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. 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.