

COMPLIANCE AUDIT

The Trout Run Volunteer Firemen's Relief Association Lycoming County, Pennsylvania For the Period January 1, 2011 to December 31, 2014

August 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Charles H. Whitford Sr., President
TROUT RUN VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lycoming County

We have conducted a compliance audit of the Trout Run 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, 2014.

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.
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 Trout Run 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. Volunteer firefighters' relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain copies of canceled or imaged checks from the Trout Run Volunteer Firefighters' Relief Association. While the volunteer firefighters' relief association provided bank statements, the volunteer firefighters' relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two volunteer firefighters' relief association officers authorized and signed the checks as required by Act 118.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2011 to December 31, 2014:

- The Trout Run Volunteer Firefighters' Relief Association took appropriate corrective action to address one of two findings contained in our prior audit report. However, the Trout Run Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- The Trout Run 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 finding listed below and discussed later in this report.

Finding – Noncompliance with Prior Audit Recommendation –
Undocumented Expenditure

- The Trout Run Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2014, had a cash balance of \$38,431 and no investments.

The contents of this report were discussed with the management of the Trout Run Volunteer Firefighters' Relief Association and, where appropriate, their response has 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.

August 11, 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 Trout Run Volunteer Firemen's Relief Association, herein referred to as the Trout Run 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 Trout Run 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> | <u>2014</u> |
|----------------------|---------------|-------------|-------------|-------------|-------------|
| Cascade Township | Lycoming | \$2,382 | \$1,357 | \$1,576 | \$1,495 |
| Cogan House Township | Lycoming | \$5,344 | \$3,048 | \$3,522 | \$3,392 |
| Gamble Township | Lycoming | \$6,814 | \$3,903 | \$4,685 | \$4,454 |
| Lewis Township | Lycoming | \$9,379 | \$5,329 | \$6,224 | \$5,893 |
| Lycoming Township | Lycoming | \$4,761 | \$2,710 | \$3,087 | \$2,932 |

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

Trout Run Volunteer Fire Company

TROUT RUN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Trout Run Volunteer Firefighters' Relief Association has complied with one of the two prior audit findings and recommendations, as follows:

- Failure To Deposit State Aid

By depositing the 2009 state aid of \$5,876 from Lewis Township, and by establishing accounting and internal control procedures to ensure that all income received is deposited in the relief association's account.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Trout Run Volunteer Firefighters' Relief Association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Finding and Recommendation section of this report

- Undocumented Expenditure

Although the relief association received reimbursement amounting to \$935 on March 30, 2011 for the undocumented expenditure identified in the prior audit report, a similar condition occurred during the current audit period as disclosed in the Finding contained in this report.

We are concerned by the relief association's failure to correct this previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

TROUT RUN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Noncompliance with Prior Audit Recommendation – Undocumented Expenditure

Condition: As cited in the Status of Prior Findings section of this report, although the relief association received reimbursement from the affiliated fire company for the undocumented expenditure made in the prior audit, the relief association again was unable to provide adequate supporting documentation for an expenditure amounting to \$803 to a credit card service on November 15, 2011.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states:

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 receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, 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.

Without adequate supporting documentation, such as an invoice, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures. Even though notified of this condition during our prior audit, relief association officials again neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as an invoice, made it impossible to determine if the expenditure was made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as an invoice, to ensure the propriety of the expenditure or that the relief association be reimbursed \$803 for the undocumented expenditure. We again recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

TROUT RUN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

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 finding and strongly encourage timely implementation of the recommendation noted in this audit report.

TROUT RUN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2011 TO DECEMBER 31, 2014

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 | \$ 9,565 |
| Fire Services: | |
| Equipment purchased | \$ 63,594 |
| Equipment maintenance | 2,099 |
| Training expenses | 1,190 |
| Total Fire Services | \$ 66,883 |
| Administrative Services: | |
| Other administrative expenses | \$ 24 |
| Other Expenditures: | |
| Undocumented expenditure | \$ 803 |

TROUT RUN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Trout Run Volunteer Firefighters' Relief Association Governing Body:

| | |
|-----------------------------|----------------|
| Mr. Charles H. Whitford Sr. | President |
| Mr. Mark Springman | Vice President |
| Ms. Deborah Clark | Secretary |
| Ms. Deborah Passuello | Treasurer |

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

| | |
|---|-----------|
| Ms. Jeanne M. McCaslin Cascade Township | Secretary |
| Ms. Kathie A. Zerance Cogan House Township | Secretary |
| Ms. Pat Hipple Gamble Township | Secretary |
| Ms. Mary Lou Coleman Lewis Township | Secretary |
| Ms. Kelly J. McGarvey Lycoming 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, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.