

COMPLIANCE AUDIT

Volunteer Firemens Relief
Association of Porter Township
(Schuylkill County) Penna
For the Period
January 1, 2012 to December 31, 2014

September 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Larry Shutt, Jr., President
PORTER TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Schuylkill County

We have conducted a compliance audit of the Porter 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, 2012 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 Porter 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. 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.

Based on our audit procedures, we concluded that, for the period January 1, 2012 to December 31, 2014:

- The Porter Township 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.
- Because of the significance of the matters described in the findings below and discussed later in this report, the Porter Township Volunteer Firefighters' Relief Association, did not in all significant respects, receive state aid and expend state aid and accumulate relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures. Therefore, the Porter Township Volunteer Firefighters' Relief Association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation–
Untimely Deposit of State Aid

Finding No. 2 – Noncompliance With Prior Audit Recommendation–
Insufficient Surety (Fidelity) Bond Coverage

Finding No. 3 – Failure to Deposit State Aid

- The Porter Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2014, had a cash balance of \$23,100 and no investments.

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

August 12, 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 Volunteer Firemens Relief Association of Porter Township (Schuylkill Co.) Penna, herein referred to as the Porter 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 Porter Township Volunteer Firefighters’ Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Porter Township	Schuylkill	\$10,621	\$11,972	\$11,361
Tremont Township	Schuylkill	\$ *	\$1,562*	\$1,469*

*The 2012 state aid allocation was not received from Tremont Township by the Porter Township Volunteer Firefighters’ Relief Association. The Tremont Township sent the state aid allocation to the Joliett Fire Company instead of the Porter Township Volunteer Firefighters’ Relief Association. The Joliett Fire Company did not distribute the state allocation to the Porter Township Volunteer Firefighters’ Association, as disclosed in Finding No. 3 in this report.

Furthermore, the 2013 and 2014 state aid allocation from Tremont Township was not deposited by the Porter Township Volunteer Firefighters’ Relief Association until March 10, 2014 and February 17, 2015, respectively as disclosed in Finding No. 1 in this report.

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

- Joliett Volunteer Fire Company
- Muir Volunteer Fire Company
- Orwin Volunteer Fire Company
- Reinerton Volunteer Fire Company
- West End Fire Company No. 3

PORTER TOWNSHIP VOLUNTEER FIREFIGHTERS'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Porter Township 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:

- Untimely Deposit of State Aid
- Insufficient Surety (Fidelity) Bond Coverage

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.

PORTER TOWNSHIP VOLUNTEER FIREFIGHTERS'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance with Prior Audit Recommendation – Untimely Deposit of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2013 and 2014 state aid allocation from Tremont Township, in the amount of \$1,562 and \$1,469, until March 10, 2014 and February 17, 2015 respectively. The foreign fire insurance tax allocation was distributed to the municipal treasurer in September of 2013 and 2014, who erroneously forwarded this state aid to the Joliett Fire Company on October 13, 2013 and October 1, 2014 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).

A similar condition was noted in our prior audit.

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: Even though notified of this condition during our prior audit, relief association officials again failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner. The Tremont Township forwarded the state allocation to the Joliett Fire Company instead of the Porter Township Volunteer Firefighters' Relief Association.

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. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

PORTER TOWNSHIP VOLUNTEER FIREFIGHTERS'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. In addition, relief association officials should contact the municipality to ensure that future state aid is forwarded to the relief association instead of the fire company. 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. The relief association indicated that they plan to contact the Tremont Township about sending the state aid allocation check to the Porter Township Volunteer Firefighters' Relief Association instead of the Joliett Fire Company.

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.

Finding No. 2 – Noncompliance with Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage

Condition: As cited in our prior audit report, 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 \$20,000; however, as of December 31, 2014, the relief association's cash assets totaled \$23,100.

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.

PORTER TOWNSHIP VOLUNTEER FIREFIGHTERS'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 (Continued)

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. Even though notified of this condition during our prior audit, relief association officials again neglected 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.

Recommendation: We again 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 plan to increase the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to \$30,000.

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.

Finding No. 3 – Failure to Deposit State Aid

Condition: The relief association did not receive the 2012 state aid distributed by Tremont Township, in the amount of \$1,392, and therefore could not deposit the 2012 state aid into a relief association account. The foreign fire insurance tax allocation was distributed to the municipal treasurer in September of 2012, who forwarded this state aid to the Joliett Fire Company, on December 31, 2012, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205).

PORTER TOWNSHIP VOLUNTEER FIREFIGHTERS'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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.

Cause: The relief association officials failed to establish internal control procedures to ensure that all state aid due to the VFRA is received and deposited into a relief association account. Tremont Township forwarded the state allocation to the Joliett Fire Company instead of the Porter Township Volunteer Firefighters' Relief Association.

Effect: As a result of the state aid not being deposited, the relief association was unable to use the funds for general operating expenses or for investment purposes. In addition, the failure to deposit receipts in a timely manner can lead to a greater risk that funds could be lost or misappropriated. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials immediately locate and deposit the \$1,392 state aid allocation from Tremont Township or obtain reimbursement from the Joliett Fire Company. In addition, relief association officials should establish accounting and internal control procedures to ensure that all state aid is received in a timely manner and deposited into a relief association account. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

PORTER TOWNSHIP VOLUNTEER FIREFIGHTERS'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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. The relief association also indicated that they plan to contact Tremont Township about forwarding state aid allocation checks to the Porter Township Volunteer Firefighters' Relief Association instead of the Joliett Fire Company.

Auditor's Conclusion: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

PORTER TOWNSHIP VOLUNTEER FIREFIGHTERS'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 3 may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120

PORTER TOWNSHIP VOLUNTEER FIREFIGHTERS' S RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2012 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	\$ 4,734
Fire Services:	
Equipment purchased	\$ 17,476
Equipment maintenance	16,992
Training expenses	2,560
Total Fire Services	\$ 37,028
Administrative Services:	
Other administrative expenses	\$ 126

PORTER TOWNSHIP VOLUNTEER FIREFIGHTERS'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Porter Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Larry Shutt, Jr.	President
Mr. David Koppenhaver	Vice President
Mr. Troy A. Wolfgang	Secretary
Mr. Robert McEntee	Treasurer

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

Mr. William Schaeffer Porter Township	Secretary
Ms. Margaret Davenport Tremont 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.