

COMPLIANCE AUDIT

Dorrance Township Volunteer
Firemen's Relief Association
Luzerne County, Pennsylvania
For the Period
January 1, 2012 to December 31, 2014

July 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Jeffrey Kotarsky, President
DORRANCE TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Luzerne County

We have conducted a compliance audit of the Dorrance 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 finding 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 Dorrance 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.

We were not able to obtain independent confirmation of cash balances directly from the financial institutions. Therefore, while the Dorrance Township Volunteer Firefighters' Relief Association provided copies of bank statements that indicated that, as of December 31, 2014, the volunteer firefighters' relief association had a cash balance of \$49,451, we were not able to verify these cash balances.

We were also not able to obtain copies of canceled or imaged checks from the Dorrance Township 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 matters described in the preceding paragraphs, for the period January 1, 2012 to December 31, 2014.

- The Dorrance Township Volunteer Firefighters' Relief Association took appropriate corrective action to address the finding contained in our prior audit report.
- The Dorrance 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 finding listed below and discussed later in this report.

Finding – Untimely Deposit of State Aid

- The Dorrance Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2014, had a cash of \$49,451 and no investments.

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

July 7, 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 Dorrance Township Volunteer Firemens Relief Association, herein referred to as the Dorrance 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 Dorrance Township Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Dorrance Township	Luzerne	\$13,035*	\$15,445	\$14,560

* The 2012 state aid allocation received from Dorrance Township was not deposited by the Dorrance Township Volunteer Firefighters’ Relief Association until March 17, 2014 as disclosed in the finding in this report.

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

Dorrance Township Volunteer Fire Department

DORRANCE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Dorrance Township Volunteer Firefighters' Relief Association has complied with the prior audit finding and recommendation, as follows:

- Insufficient Surety (Fidelity) Bond Coverage

By decreasing the relief association's cash assets to an amount below the maximum protection of the Surety (Fidelity) bond coverage.

DORRANCE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Untimely Deposit Of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2012 state aid allocation it received from Dorrance Township, in the amount of \$13,035, until March 17, 2014. The foreign fire insurance tax allocation was distributed to the municipal treasurer who forwarded this state aid to the volunteer firefighters' relief association on October 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.

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2012	Dorrance Township	\$13,035	October 1, 2012	March 17, 2014

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 the relief association should establish internal control procedures to ensure state aid is deposited in a timely manner.

Cause: Relief association officials failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner. Relief association officials indicated the state aid check was deposited in the fire company account in error.

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.

DORRANCE TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

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.

DORRANCE TOWNSHIP VOLUNTEER FIREFIGHTERS' 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	\$ 4,932
Fire Services:	
Equipment purchased	\$ 60,284
Equipment maintenance	4,019
Training expenses	600
Total Fire Services	\$ 64,903
Administrative Services:	
Other administrative expenses	\$ 48

DORRANCE 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

Dorrance Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Jeffrey Kotarsky	President
Mr. Edward Myers	Vice President
Ms. Valerie Zane	Secretary
Ms. Janet Jones	Treasurer

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

Ms. Patricia Davis Dorrance 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, 229\ Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.