

COMPLIANCE AUDIT

Stoneboro Volunteer Fire Company Relief Association Mercer County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

October 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. William Ewing, President
STONEBORO VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Mercer County

We have conducted a compliance audit of the Stoneboro 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; and
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 Stoneboro 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 Stoneboro Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the four findings contained in our prior audit report. However, the Stoneboro Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the three remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Audit Findings section of this report.
- The Stoneboro 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 – Noncompliance with Prior Audit Finding – Undocumented Expenditures

Finding No. 2 – Noncompliance with Prior Audit Finding – Untimely Receipt of State Aid

Finding No. 3 – Noncompliance with Prior Audit Finding – Failure to Maintain a Complete and Accurate Equipment Roster

- The Stoneboro Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2014, had a cash balance of \$9,203 and no investments.

The contents of this report were discussed with the management of the Stoneboro 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 28, 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 Stoneboro Volunteer Fire Company Relief Association, herein referred to as the Stoneboro 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 Stoneboro 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>
Stoneboro Borough	Mercer	\$4,814	\$5,394	\$5,116
Lake Township	Mercer	\$3,909	\$4,382	\$ 0 *
Sandy Lake Township	Mercer	\$3,268	\$3,718	\$3,521
Worth Township	Mercer	\$2,455	\$2,708	\$2,566

* Lake Township did not receive state aid from the Commonwealth of Pennsylvania in the year 2014.

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

Stoneboro Volunteer Fire Company

STONEBORO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Inappropriate Presigning Of Blank Checks

By prohibiting the presigning of blank checks

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Stoneboro Volunteer Firefighters' Relief Association has not complied with three of the four prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Undocumented Expenditures
- Untimely Receipt of State Aid
- Failure to Maintain a Complete and Accurate Equipment Roster

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.

STONEBORO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance with Prior Audit Recommendation – Undocumented Expenditures

Condition: As cited in our prior audit report, the relief association was unable to provide adequate supporting documentation for the following expenditures made in the prior audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
09/01/2009	460	Training Expense	\$ 175
05/11/2010	478	Administrative Expense	300
11/08/2010	487	Equipment Purchase	50
05/11/2011	497	Administrative Expense	300
08/11/2011	506	Administrative Expense	222
Total			<u>\$ 1,047</u>

During the current audit period, the relief association did not provide adequate supporting documentation, such as invoices, to ensure the propriety of the expenditures or obtain reimbursement for the \$1,047 of undocumented expenditures.

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: While notified of this condition during our prior audit, relief association officials neglected to provide this department with supporting documentation or obtain reimbursement for the prior audit undocumented expenditures.

Effect: Lack of supporting documentation, such as invoices and detailed minutes of meetings, made it impossible to determine if the expenditures were 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

STONEBORO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the expenditures or that the relief association be reimbursed \$1,047 for the undocumented expenditures. We also 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.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the affiliated fire company reimbursed the relief association \$1,047 for the undocumented expenditures on July 9, 2015.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$1,047 was received. Compliance for expenditures made during the next audit will be subject to verification through our next audit.

Finding No. 2 – Noncompliance with Prior Audit Recommendation – Untimely Receipt and Deposit of State Aid

Condition: The volunteer firefighters' relief association did not receive the 2012 state aid allocation of \$3,909 from Lake Township until February 11, 2013, which is 141 days after they received the funds from the Commonwealth of Pennsylvania on September 21, 2012. The relief association deposited the 2012 state aid allocation from Lake Township on March 13, 2013.

Criteria: As required by the Foreign Fire Insurance Tax Distribution Law Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), 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.

Furthermore, it is the relief association's responsibility to monitor the municipality's distribution of the state aid. Upon receipt of its state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

STONEBORO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to monitor the municipality's receipt and distribution of state aid allocations to ensure the timely receipt of its respective state aid allocation check. If the relief association has not received its state aid allocation check within 60 days of the municipality's receipt of the monies from the Commonwealth of Pennsylvania, the relief association officers should contact the municipality to expedite the distribution of the funds due to the relief association. Also, the relief association failed to establish internal control procedures requiring that all income received be recorded and deposited in a timely manner.

Effect: As a result of the untimely deposit, 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.

Recommendation: We again recommend that the relief association officials monitor the municipality's distribution of state aid allocations to ensure that the allocation is distributed to the relief association within 60 days of the date receipt. 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: We are concerned by the relief association's failure to correct this previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report.

Finding No. 3 – Noncompliance with Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: As cited in our prior audit report, the relief association again failed to maintain a complete and accurate roster of equipment owned by the relief association. During the prior audit period, the relief association equipment purchases totaled \$42,399; however, \$24,795 of the equipment purchased was not properly accounted for on the relief association's equipment roster. During the current audit period, there was one purchase of \$2,356 for radios that were not properly recorded on the list. 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.

STONEBORO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 all of 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: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The continued 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.

Recommendation: We again recommend that 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: We are concerned by the relief association's failure to correct this previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report.

STONEBORO 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	\$ 6,222
Fire Services:	
Equipment purchased	\$ 36,904
Equipment maintenance	10,964
Training expenses	1,110
Fire prevention materials	950
Total Fire Services	\$ 49,928
Administrative Services:	
Other administrative expenses	\$ 1,281

STONEBORO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Stoneboro Volunteer Firefighters' Relief Association Governing Body:

Mr. William Ewing	President
Mr. Chad King	Vice President
Ms. Leah Bauerle	Secretary
Mr. Roger Somers	Treasurer

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

Ms. Constance Westlake Lake Township	Secretary
Ms. Heather K. Bacher Sandy Lake Township	Secretary
Ms. Laurie McLallen Stoneboro Borough	Secretary
Mr. Dale Furey Worth 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.