

# COMPLIANCE AUDIT

---

## Irvona Volunteer Fire Company Relief Association Clearfield County, Pennsylvania For the Period January 1, 2013 to December 31, 2014

---

January 2016



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  
www.PaAuditor.gov

EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Terry Collins, Jr., President  
Irvona Volunteer Firefighters'  
Relief Association  
Clearfield County

We have conducted a compliance audit of the Irvona 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, 2013 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 Irvona 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, 2013 to December 31, 2014:

- The Irvona Volunteer Firefighters' Relief Association took appropriate corrective action to address 6 of the 8 findings contained in our prior audit report. However, the Irvona Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- The Irvona 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 Recommendation -  
Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation -  
Inadequate Financial Record-Keeping System

Finding No. 3 – Failure to Deposit State Aid

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

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

January 19, 2016



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background .....	1
Status of Prior Findings .....	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance with Prior Audit Recommendation – Undocumented Expenditures .....	4
Finding No. 2 – Noncompliance with Prior Audit Recommendation – Inadequate Financial Record-Keeping System .....	5
Finding No. 3 – Failure To Deposit State Aid Inadvertently Received While In Noncompliance Withhold Status .....	6
Supplementary Financial Information .....	9
Report Distribution List .....	10

## 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 Irvona Volunteer Fire Company Relief Association, herein referred to as the Irvona 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 Irvona Volunteer Firefighters’ Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>
Beccaria Township	Clearfield	*	*
Chest Township	Clearfield	\$ 662**	\$ 633**
Irvona Borough	Clearfield	*	*
Jordan Township	Clearfield	*	*

\* The 2013 and 2014 state aid allocations from Beccaria Township, Chest Township, Irvona Borough and Jordan Township were subject to a withholding of state aid by the department due to the status of conditions disclosed in the prior audit report for this relief association and referenced in the Status of Prior Findings section of this report.

\*\* The 2013 and 2014 state aid allocation received from Chest Township represented one third of the total state aid allocations received by the township which were erroneously distributed to and not deposited by the Irvona Volunteer Firefighters’ Relief Association into a relief association account until October 22, 2015 as disclosed in Finding No. 3 of this report.

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

Irvona Volunteer Fire Company No 1

IRVONA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Irvona Volunteer Firefighters' Relief Association has complied with 6 of the 8 prior audit findings and recommendations, as follows:

- Failure To Maintain Surety (Fidelity) Bond Coverage

By maintaining Surety (Fidelity) bond coverage in an amount greater than the balance of the relief association's cash assets.

- Failure To Maintain A Complete and Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

- Failure To Maintain Minutes of Meetings

By maintaining minutes of all relief association meetings held during the current period.

- Inappropriate Pre-signing of Blank Checks

By prohibiting the pre-signing of blank relief association checks.

- Undocumented Loan

By liquidating the fire company loan, amounting to \$1,673 during the audit period

- Inadequate Signatory Authority for the Disbursement of Funds

By requiring more than one signature on all negotiable instruments.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Irvona Volunteer Firefighters' Relief Association has not complied with 2 of the 8 prior audit findings as noted below and discussed in detail in the Findings and Recommendations section of this report:

- Undocumented Expenditures

- Inadequate Financial Record-Keeping System

We are concerned by the relief association's failure to correct these previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

IRVONA 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 expenditures made to multiple vendors amounting to \$8,867 made during the prior audit period. During the current audit period, relief association officials again failed to provide adequate supporting documentation, such as an invoice, to evidence the propriety of these expenditures or obtain reimbursement for these undocumented expenditures as previously recommended.

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: Even though notified of this condition during our prior audit, relief association officials again neglected to provide adequate supporting documentation to evidence the propriety of these expenditures or seek reimbursement for these undocumented expenditures.

Effect: Lack of supporting documentation, such as an invoice, made it impossible to determine if these 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 misappropriated.

Recommendation: We again recommend that the relief association officials provide this department with adequate supporting documentation, such as an invoice, to ensure the propriety of the expenditures or that the relief association be reimbursed \$8,867 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.

IRVONA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and as a result of our audit subsequent to the period under review, the relief association provided this department with documentation supporting \$7,832 of the previously undocumented expenditures evidencing the propriety of these expenditures made during the prior audit period. In addition, on November 2, 2015, the relief association received reimbursement from the fire company in the amount of \$1,035 for the remaining undocumented expenditures.

Auditor's Conclusion: We reviewed the supporting documentation verifying the propriety of the expenditures and verified that the reimbursement of \$1,035 was received by the relief association. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

**Finding No. 2 – Noncompliance with Prior Audit Recommendation – Inadequate Financial Record-Keeping System**

Condition: As cited in our prior audit report, the relief association's financial record-keeping system did not establish adequate accounting procedures to allow the membership to effectively monitor the relief association's financial operations and to provide effective controls over cash receipts, disbursements, and assets. A similar condition existed during the current audit period. The following are the noted deficiencies:

- A journal was not maintained to record the receipts and disbursements of the relief association.
- Ledgers were not utilized to record the transactions of the relief association accounts.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states:

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it 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.

In addition, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association assets.

IRVONA 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 neglected their various record-keeping responsibilities.

Effect: The continued failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We again recommend that the relief association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations and provides effective control over cash receipts, disbursements, and assets. 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 finding and strongly encourage timely implementation of the recommendations noted in this audit report.

**Finding No. 3 – Failure To Deposit State Aid Inadvertently Received While In Noncompliance Withhold Status**

Condition: The relief association did not deposit the 2013 and 2014 state aid allocations distributed by Chest Township, in the amounts of \$662 and \$633 respectively, into a relief association account. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 23, 2013 and September 23, 2014, respectively, who forwarded this state aid to the volunteer firefighters' relief association on December 10, 2013, and November 20, 2014, respectively, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). In addition, we determined that these allocations should not have been distributed to the Irvona Volunteer Firefighters' Relief Association, but instead, to other relief associations providing fire services to the township due to the restriction of state aid that was placed on this relief association by the prior audit period's "Withhold of State Aid" status as rendered in Order to Show Cause Docket No. 13-11 issued by the department.

IRVONA VOLUNTEER FIREFIGHTERS' 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.

Furthermore, prudent business practice dictates that, upon receipt of its state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

In addition, Order to Show Cause Docket No. 13-11 indicated that due to noncompliance with certain prior audit findings and recommendations, state aid would be withheld until compliance with such recommendations.

Cause: Relief association officials failed to establish procedures to ensure that all state aid received is deposited into a relief association account and inadvertently deposited the state aid received for 2013 and 2014 into a fire company account. In addition, relief officials were unaware that the relief association was not entitled to the state aid allocations received due to the relief association's current state aid withhold status.

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. Moreover, since the relief association's state aid was withheld by the department, the relief association received funds that it was not entitled and should have been disbursed to other eligible relief associations providing services to the township.

Recommendation: We recommend that relief association officials obtain reimbursement from the fire company amounting to \$1,295 representing the total state aid allocation it received from Chest Township while in withhold status. In addition, relief association officials should establish accounting and internal control procedures to ensure that all future 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.

IRVONA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

In addition, since the relief association's state aid for 2013 and 2014 is in actuality still being withheld by the department, we recommend that the relief association return the \$1,295 to Chest Township for redistribution to other relief associations that provided fire services to the township during the period until the Order to Show Cause is withdrawn and the 2013 and 2014 withheld portion of funds are released.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and as a result of our audit subsequent to the period under review, on October 22, 2015, the affiliated fire company reimbursed the relief association \$1,295 for the state aid received.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$1,295 was received from the fire company. However, we recommend that the relief association also return the \$1,295 to Chest Township for redistribution until the Order to Show Cause is withdrawn and the 2013 and 2014 withheld funds are released. After additional discussions with officials from both the township and the relief association, the parties agreed to the additional proposed corrective action and will comply. Compliance will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

IRVONA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2014

Cash Balance:	\$	2,286
---------------	----	-------

Expenditures:

Benefit Services:

Insurance Premiums	\$	<u>6,347</u>
--------------------	----	--------------

Fire Services:

Equipment purchased	\$	797
---------------------	----	-----

Equipment maintenance		<u>1,859</u>
-----------------------	--	--------------

Total Fire Services	\$	<u>2,656</u>
---------------------	----	--------------

Administrative Services:

Bond Premiums	\$	<u>257</u>
---------------	----	------------

IRVONA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Irvona Volunteer Firefighters' Relief Association Governing Body:

<b>Mr. Terry Collins, Jr.</b>	President
<b>Mr. William Collins, Jr.</b>	Vice President
<b>Ms. Ashley Collins</b>	Secretary
<b>Mr. Michael Knotts</b>	Treasurer

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

<b>Ms. Joanne McGarvey</b> Irvona Borough	Secretary
<b>Ms. Kimberly Hamilton</b> Beccaria Township	Secretary
<b>Mr. Larry Garner</b> Chest Township	Secretary
<b>Mr. Donald E. Wharton, Jr.</b> Jordan Township	Secretary

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).