

COMPLIANCE AUDIT

Beaver Township Fireman's Relief Association of Bloomsburg, Rural Route No. 3, Pennsylvania Columbia County

For the Period
January 1, 2013 to December 31, 2015

October 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Michael Neiswender, President
Beaver Township Fireman's Relief Association Of Bloomsburg
Rural Route No. 3, Pennsylvania
Columbia County

We have conducted a compliance audit of the Beaver Township Fireman's Relief Association Of Bloomsburg, Rural Route No. 3, Pennsylvania (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, 2015.

The objective of the audit was to determine if the 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 objective identified above.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the 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. 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 objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, for the period January 1, 2013 to December 31, 2015, the 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 – Inadequate Signatory Authority For The Disbursement Of Funds


Finding No. 2 – Failure To Conduct Annual Physical Equipment Inventories

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.

Beaver Township failed to complete and return reporting Certification Form AG 385 for the year 2014 that would have enabled them to receive their foreign fire insurance premium tax state aid allocation, per Section 706(b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), for the year 2014. Consequently, the relief association did not receive their foreign fire tax allocation for the year 2014 from the municipality during 2014; and therefore, those funds were not available to the relief association for general operating expenses or for investment purposes. Beaver Township should submit the AG 385 forms by the March 31 annual filing date in accordance with Act 205 to ensure proper receipt and distribution of state aid to the relief association in subsequent periods.

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

September 30, 2016


EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Findings and Recommendations:	
Finding No. 1 – Inadequate Signatory Authority For The Disbursement Of Funds	3
Finding No. 2 – Failure To Conduct Annual Physical Equipment Inventories	4
Supplementary Financial Information	5
Report Distribution List	7

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 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 volunteer firefighters' relief associations. The relief association's bylaws define the specific operational procedures by which the 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 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 that is or are recognized as providing the service to the municipality.

BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Beaver Township	Columbia	\$6,684	\$ *	\$6,102

* Beaver Township failed to complete and return reporting Certification Form AG 385 for the year 2014 that would have enabled them to receive their foreign fire insurance premium tax state aid allocation, per Section 706(b) (2) of the Act of December 18, 1984, (P.L. 1005, No. 205), for the year 2014. Consequently, the relief association did not receive their foreign fire tax allocation for the year 2014 from the municipality during 2014; and therefore, those funds were not available to the relief association for general operation expenses or for investment purposes. Beaver Township should submit the AG 385 forms by the March 31 annual filing date in accordance with Act 205 to ensure proper receipt and distribution of state aid to the relief association in subsequent periods.

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

Beaver Township Volunteer Fire Company

BEAVER TOWNSHIP FIREMAN'S RELIEF ASSOCIATION OF BLOOMSBURG,
RURAL ROUTE NO. 3, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 3 checks out of 11 checks drawn on the relief association's checking account that only contained the signature of one officer, even though two signatures are required by Act 118. Issuing checks with the signature of only one officer negates the relief association's internal control over the disbursement process.

In addition, the existing bylaws of the relief association, specifically, Section 3 devoted to the duties of the officers, does not address the provision concerning the need to have two have two authorized signatures, one belonging to disbursing officer, affixed to all negotiable instruments as required by Act 118 at 35 Pa.C.S. § 7415(c).

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: Relief association officials neglected to establish adequate internal control procedures that require the signatures of at least two officers on all negotiable instruments. Furthermore, as a result of the mandatory provision not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

Effect: As a result of the relief association officer issuing checks with only one signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

BEAVER TOWNSHIP FIREMAN'S RELIEF ASSOCIATION OF BLOOMSBURG,
RURAL ROUTE NO. 3, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118. Additionally, we recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operation procedures of the relief association. 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.

Finding No. 2 – Failure To Conduct Annual Physical Equipment Inventories

Condition: As cited as an observation in our prior audit, the relief association officials failed to conduct annual physical inventories of equipment and ensure such inventory accounted for all equipment owned by the relief association. A similar condition occurred during the current audit period.

Criteria: Sound business practice dictates that annual inventories are conducted to ensure the accuracy of the relief association's equipment roster.

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures to ensure the performance of annual physical equipment inventories.

Effect: The continued failure to perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association owned equipment.

Recommendation: We recommend that the relief association officials ensure they perform an annual physical inventory of all operable equipment and that the completion of the inventories 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: Compliance will be subject to verification through our next audit.

BEAVER TOWNSHIP FIREMAN'S RELIEF ASSOCIATION OF BLOOMSBURG,
RURAL ROUTE NO. 3, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2015

Cash	<u>\$ 11,896</u>
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BEAVER TOWNSHIP FIREMAN'S RELIEF ASSOCIATION OF BLOOMSBURG,
RURAL ROUTE NO. 3, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Fire Services:	
Equipment purchased	\$ 7,222
Equipment maintenance	<u>2,795</u>
Total Fire Services	<u>\$ 10,017</u>
Administrative Services:	
Bond premiums	<u>\$ 300</u>
Total Expenditures	<u><u>\$ 10,317</u></u>

BEAVER TOWNSHIP FIREMAN'S RELIEF ASSOCIATION OF BLOOMSBURG,
RURAL ROUTE NO. 3, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Beaver Township Fireman's Relief Association Of Bloomsburg, Rural Route No. 3,
Pennsylvania Governing Body:

Mr. Michael Neiswender
President

Ms. Catherine Neiswender
Secretary

Ms. Susan Wynnings
Treasurer

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

Mr. Benjamin Sheehe
Secretary
Beaver Township

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.