

COMPLIANCE AUDIT

Relief Association of Conneaut Lake Borough and Sadsbury Township of Pennsylvania Crawford County For the Period January 1, 2014 to December 31, 2016

July 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Timothy Latta, President
Relief Association of Conneaut Lake Borough
and Sadsbury Township of Pennsylvania
Crawford County

We have conducted a compliance audit of the Relief Association of Conneaut Lake Borough and Sadsbury Township of 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, 2014 to December 31, 2016.

The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. 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, 2014 to December 31, 2016, because of the significance of the matters described in the findings below and discussed later in this report, the relief association did not, in all significant respects, comply with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, collectively as a whole. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Failure to Comply with Terms of Loan Agreement

Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster

The four findings contained in this report cite conditions that existed in the operation of the relief association during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report. Continued noncompliance and/or untimely corrective action to address the multitude of conditions noted in the above findings could result in a disruption of future state aid funding available as discussed above and in the Potential Withhold of State Aid section of this report, a shortage in funds available for other authorized operating expenses or for investment purposes, and a greater risk that funds could be lost or misappropriated.

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 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.

June 13, 2017



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 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. Volunteer firefighters' relief association bylaws define the specific operational procedures by which relief associations conduct 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 relief associations 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Conneaut Lake Borough	Crawford	\$ 3,596	\$ 3,463	\$ 3,447
Sadsbury Township	Crawford	\$11,503	\$11,063	\$10,992

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:

Conneaut Lake Volunteer Fire Department

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH
AND SADSBUY TOWNSHIP OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
05/15/14	1100	Training vendor	\$ 263
01/05/15	1162	Affiliated fire company	6,000
06/18/15	1200	Affiliated fire company	10,000
08/21/15	1216	Affiliated fire company	5,000
09/04/15	1217	Affiliated fire company	1,245
09/11/15	1218	Affiliated fire company	3,000
09/15/15	1219	Affiliated fire company	400
10/08/15	1223	Affiliated fire company	2,000
04/22/16	1266	Maintenance vendor	300
Total			<u>\$ 28,208</u>

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: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices, 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 misappropriated. Furthermore, the relief association’s future state aid allocations may be withheld until the finding recommendation is complied with.

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH
AND SADSBUY TOWNSHIP OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 \$28,208 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 indicated they will take action to comply with the recommendation.

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.

Finding No. 2 – Unauthorized Expenditure

Condition: The relief association expended \$5,542 for maintenance services performed on a fire company owned vehicle during the current audit period that is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1) states:

The funds of any volunteer firefighters’ relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

Costs associated with maintenance performed on a fire company owned vehicle do not qualify as an authorized volunteer firefighters’ relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118. Furthermore, the relief association’s future state aid allocations may be withheld until the finding recommendation is complied with.

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH
AND SADSURY TOWNSHIP OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No 2 - (Continued)

Recommendation: We recommend that the relief association be reimbursed \$5,542 for the unauthorized expenditure and that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of 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 indicated they will take action to comply with the recommendation.

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.

Finding No. 3 – Failure To Comply With Terms Of Loan Agreement

Condition: The relief association previously entered into a 15-year loan agreement with the Conneaut Lake Volunteer Fire Company in the amount of \$185,057 during 2003; however, the relief association did not receive any of the required monthly payments due under the terms of the loan during the years 2014, 2015 and 2016, through the date of this report.

Criteria: The terms of the loan agreement indicate that payments of \$1,416 will be due to the relief association on a monthly basis, beginning on December 1, 2003 and ending with the last payment due November 2018. Prudent business practice dictates that payments should be received and deposited timely into a relief association account and applied accurately to the outstanding loan balance. In addition, all delinquent loan payments should be aggressively pursued.

Cause: Although relief association officials were aware of the payment schedule outlined in the loan agreement, officials indicated that due to the fire company filing for bankruptcy during 2016, the relief association was unable to collect payments in accordance with the loan agreement.

Effect: Due to the relief association not receiving the scheduled loan payments totaling \$50,964, funds were unavailable for general operating expenses or for investment purposes.

Recommendation: We recommend that relief association officials collect \$50,964 representing the delinquent loan payments that were due during the current audit period. We further recommend that relief association officials ensure future payments are received in accordance with the loan agreement. If such action is not taken, we recommend that the loan be immediately liquidated. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH
AND SADSBUURY TOWNSHIP OF PENNSYLVANIA
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 but may be delayed due to the fire company's on-going bankruptcy filing with the court.

Auditor's Conclusion: Based on the management response, the impact, if any, of the fire company's bankruptcy filing on the relief association's investment is not known as of the date of this report. Additionally, relief association officials indicated that they were unaware whether the organization filed a proof of claim in the bankruptcy of the fire company. However, we recommend that they do so, if required. We will continue to monitor the relief association's investment in the subsequent audit period and compliance will be subject to verification through our next audit.

Finding No. 4 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit period, this listing was incomplete because it did not contain the dates of purchase and the cost of equipment to accurately identify equipment owned by the relief association. As such, we were unable to determine if all of the equipment purchased during the audit period in the amount of \$18,900 was recorded. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all equipment owned by the relief association.

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

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH
AND SADSBUY TOWNSHIP OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Cause: Relief association officials 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 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 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: Compliance will be subject to verification through our next audit.

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH
AND SADSBUY TOWNSHIP OF PENNSYLVANIA
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 1 and 2 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are 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 relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH
AND SADSBUY TOWNSHIP OF PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCE
AS OF DECEMBER 31, 2016

Cash	\$ 28,748
Book Value of Investment*	<u>52,985</u>
Total Cash and Investments	<u>\$ 81,733</u>

- * Investment value is comprised solely of an existing loan between the relief association and the affiliated fire company. As disclosed in Finding No. 3 contained in this report, the relief association did not receive any of the required monthly payments due under the terms and conditions of the loan for the current audit period. According to relief association officials, the fire company has filed for bankruptcy with the courts; however, the impact, if any, of such filing on the relief association's investment is not known as of the date of this report. We will continue to monitor the relief association's investment in the subsequent audit period.

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH
AND SADSBUY TOWNSHIP OF PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 13,528
Relief benefits	209
Total Benefit Services	<u>\$ 13,737</u>
Fire Services:	
Equipment purchased	\$ 20,759
Equipment maintenance	26,361
Training expenses	385
Fire prevention materials	359
Total Fire Services	<u>\$ 47,864</u>
Administrative Services:	
Other administrative expenses	\$ 6,948
Bond premiums	971
Total Administrative Services	<u>\$ 7,919</u>
Other Expenditures:	
Payments on lease-financing	\$ 17,389
Bingo/Small games of chance expenses*	55,342
Undocumented expenditures	28,208
Unauthorized expenditure	5,542
Total Other Expenditures	<u>\$ 106,481</u>
Total Expenditures	<u><u>\$ 176,001</u></u>

* Bingo proceeds deposited into a relief association account during the current audit period amounted to \$139,062 helping to offset the relief association's expenditures in these activities as noted above.

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH AND SADSBURY
TOWNSHIP OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Relief Association of Conneaut Lake Borough and Sadsbury Township of Pennsylvania
Governing Body:

Mr. Timothy Latta
President

Mr. Brian Raybuck
Vice President

Ms. Renee Lee
Secretary

Mr. John Eric Baum
Treasurer

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

Ms. Beverly Mobley
Secretary
Conneaut Lake Borough

Ms. Rose Mumau
Secretary
Sadsbury 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.