

COMPLIANCE AUDIT

Dingman Township Volunteer Fire Department Relief Association Pike County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

June 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Joseph DeMaio, President
Dingman Township Volunteer Fire
Department Relief Association
Pike County

We have conducted a compliance audit of the Dingman Township Volunteer Fire Department Relief Association (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, 2015 to December 31, 2017.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding contained in our prior audit report.
2. 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 objectives identified above and was not required to be and was not conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

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 objectives. 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, 2015 to December 31, 2017:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- The relief association, in all significant respects, 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, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 2 – Failure To Monitor Investment Activity

Finding No. 3 – Unauthorized Expenditures

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 4, 2018



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Finding	3
Findings and Recommendations:	
Finding No. 1 – Insufficient Surety (Fidelity) Bond Coverage.....	4
Finding No. 2 – Failure To Monitor Investment Activity.....	5
Finding No. 3 – Unauthorized Expenditures.....	6
Supplementary Financial Information	8
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 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. 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Dingman Township	Pike	\$59,913	\$59,547	\$52,622

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:

Dingman Township Volunteer Fire Department

DINGMAN TOWNSHIP VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Inappropriate Ownership Of Rescue Vehicles

By ensuring the titles of the rescue vehicles were transferred to the relief association.

DINGMAN TOWNSHIP VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association’s authorized disbursing officer. The relief association’s Surety (Fidelity) bond coverage amount was \$200,000; however, as of December 31, 2017, the relief association’s cash assets totaled \$223,863.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: Relief association officials failed to monitor the relief association’s cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association’s authorized disbursing officer was in compliance with Act 118 provisions.

Effect: As a result of the authorized disbursing officer of the relief association being insufficiently bonded, the relief association’s cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association’s authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association’s authorized disbursing officer to an amount greater than the expected maximum balance of the relief association’s cash assets, or by decreasing the relief association’s cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association’s cash balance to ensure that unexpected events affecting the relief association’s current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association’s authorized disbursing officer. 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 relief association increased the bond coverage to \$250,000 on March 12, 2018.

Auditor’s Conclusion: Compliance will be subject to verification through our next audit.

DINGMAN TOWNSHIP VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Monitor Investment Activity

Condition: Relief association officials failed to monitor their investment activity. In 2015, a certificate of deposit was considered dormant and was escheated to the Pennsylvania Department of Treasury. As of the last account statement dated December 31, 2014, the escheated value of the relief association's certificate of deposit amounted to \$5,987.

Criteria: The relief association's governing body has ultimate authority and the fiduciary responsibility for the financial management of relief association's funds which includes an obligation to monitor the activity of relief association's investments on a periodic basis which is a prerequisite for sound administration of relief association accounts.

Cause: Relief association officials failed to establish adequate internal control procedures over their investment activity and were unaware that their certificate of deposit was considered dormant due to inactivity.

Effect: The relief association's failure to adequately monitor investment activity resulted in a loss of funds to pay general operating expenses or for other investment purposes and any future interest income from this investment.

Recommendation: We recommend the relief association contact the Bureau of Unclaimed Property with the Pennsylvania Department of Treasury to obtain the funds from their dormant custodial investment account. In addition, the management of the relief association should monitor all future investments to ensure they are maximizing their investment return and safeguarded from loss. 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, contacted the PA Department of Treasury to retrieve the escheated funds.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

DINGMAN TOWNSHIP VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
11/04/2015	1249	Overpayment of invoice for pagers	\$ 70
04/27/2016	1267	Fuel for fire company owned vehicle	24
05/18/2016	1268	Fuel for fire company owned vehicle	59
06/01/2016	1269	Fuel for fire company owned vehicle	10
09/28/2016	1278	Fuel for fire company owned vehicle	74
03/01/2017	1297	Fuel for fire company owned vehicle	38
04/19/2017	1298	Fuel for fire company owned vehicle	68
05/17/2017	1302	Fuel for fire company owned vehicle	38
05/31/2017	1306	Fuel for fire company owned vehicle	42
07/11/2017	1308	Fuel for fire company owned vehicle	27
08/29/2017	1314	Fuel for fire company owned vehicle	55
11/29/2017	1331	Fuel for fire company owned vehicle	<u>60</u>
Total			<u>\$ 565</u>

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 the purchase of fuel for a fire company owned vehicle do not qualify as authorized volunteer firefighters’ relief association expenditures; consequently, these disbursements are 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 these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118.

DINGMAN TOWNSHIP VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the relief association be reimbursed \$565 for the unauthorized expenditures 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$565 for the unauthorized expenditures on March 15, 2018.

Auditor’s Conclusion: We reviewed documentation verifying that the reimbursement of \$565 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

DINGMAN TOWNSHIP VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 223,863
Fair Value of Investments	<u>26,011</u>
Total Cash and Investments	<u>\$ 249,874</u>

DINGMAN TOWNSHIP VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2017

Expenditures:

Fire Services:	
Equipment purchased	\$ 91,963
Equipment maintenance	28,014
Training expenses	5,214
Fire prevention materials	<u>15,141</u>
Total Fire Services	<u>\$ 140,332</u>
Administrative Services:	
Officer compensation	\$ 6,000
Other administrative expenses	<u>1,523</u>
Total Administrative Services	<u>\$ 7,523</u>
Other Expenditures:	
Unauthorized expenditures	<u>\$ 565</u>
 Total Expenditures	 <u><u>\$ 148,420</u></u>

DINGMAN TOWNSHIP VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Dingman Township Volunteer Fire Department Relief Association Governing Body:

Mr. Joseph DeMaio
President

Mr. Al Valente
Vice President

Ms. Joy Vierra
Secretary

Ms. Susan Mikulak
Treasurer

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

Ms. Karen Kleist
Secretary
Dingman 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.