

COMPLIANCE AUDIT

Farmington Township Volunteer Firemen's Relief Association Clarion County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

May 2017



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
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Richard Heasley, President
Farmington Township Volunteer Firemen's
Relief Association
Clarion County

We have conducted a compliance audit of the Farmington Township Volunteer Firemen's 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, 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, 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 finding listed below and discussed later in this report.

Finding – Failure To Maintain Surety (Fidelity) Bond Coverage

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 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.

May 5, 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. 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>
Highland Township	Clarion	\$ 1,884	\$ 1,818	\$ 1,822
Knox Township	Clarion	\$ 2,796	\$ 2,585	\$ 2,576
Farmington Township	Clarion	\$12,299	\$11,755	\$11,621

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:

Farmington Township Volunteer Fire Company

FARMINGTON TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. The policy documentation received is in the name of the affiliated fire company.

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.

The relief association is a separate legal entity. Furthermore, the relief association should maintain a Surety (Fidelity) bond that is solely in the name of the relief association to ensure that the relief association's cash assets are insured.

Cause: Relief association officials indicated that they were unaware that the relief association's cash assets were uninsured because their Surety (Fidelity) bond coverage policy was in the name of the affiliated fire company even though the policy mentions the relief association.

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

Recommendation: We recommend that the relief association officials ensure that the disbursing officer is adequately covered by a faithful performance Surety (Fidelity) bond as required by Act 118. This requirement may be accomplished by obtaining a Surety (Fidelity) bond solely in the relief association's name. 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.

FARMINGTON TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2016

Cash	<u>\$ 21,433</u>
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FARMINGTON TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:

Insurance premiums	\$ 9,807
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Fire Services:

Equipment purchased	\$ 34,529
Equipment maintenance	4,357
Training expenses	920
Fire prevention materials	1,138
Total Fire Services	\$ 40,944

Administrative Services:

Other administrative expenses	\$ 2,861
Bond premiums	250
Total Administrative Services	\$ 3,111

Total Expenditures	\$ 53,862
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FARMINGTON TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Farmington Township Volunteer Firemen's Relief Association Governing Body:

Mr. Richard Heasley
President

Mr. Tyler Lencer
Vice President

Ms. Marcia Heasley
Secretary

Mr. Walter A. Karg
Treasurer

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

Ms. Nancy M. Kadunce
Secretary
Highland Township

Ms. Jacqui Blose
Secretary
Knox Township

Mr. Lewis Culp
Secretary
Farmington Township

FARMINGTON TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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