

COMPLIANCE AUDIT

Fawn Grove Volunteer Firemen's Relief Association York County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

February 2018



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. William G. Kurtz, President
Fawn Grove Volunteer Firemen's
Relief Association
York County

We have conducted a compliance audit of the Fawn Grove 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, 2015 to December 31, 2016.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the findings 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, 2016:

- The relief association took appropriate corrective action to address three of the six findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the three remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this 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 – Noncompliance With Prior Audit Recommendation – Failure To Deposit State Aid

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings

Finding No. 3 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Failure To Conduct Annual Physical Equipment Inventories

Three of the four audit findings contained in this report cite conditions that existed in the operation of the relief association during the prior audit period and were not corrected 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.

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.

February 8, 2018



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 – Failure To Deposit State Aid	5
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings	6
Finding No. 3 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number	7
Finding No. 4 – Noncompliance With Prior Audit Recommendation – Failure To Conduct Annual Physical Equipment Inventories	8
Supplementary Financial Information	9
Report Distribution List	11

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>2015</u>	<u>2016</u>
Fawn Grove Borough	York	\$ 2,964	\$ 2,946
Fawn Township	York	\$22,011	\$21,579
Peach Bottom Township	York	\$ 1,723*	\$ 1,725

* The 2015 state aid allocation from Peach Bottom Township was not deposited by the relief association as disclosed in Finding No. 1 in this report.

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:

Citizens Volunteer Fire Company

FAWN GROVE FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has complied with three of the six prior audit findings and recommendations, as follows:

- Undocumented Expenditures

By providing adequate documentation to evidence the propriety of the undocumented expenditures that were made in the prior audit period.

- Failure To Secure Ownership Interest In Jointly Purchased Vehicle

By executing a written formal agreement with the affiliated fire company that adequately secures its proportional ownership interest in the jointly purchased vehicle.

- Inadequate Relief Association Bylaws

By revising the relief association bylaws to meet the minimum requirements of Act 118.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not fully complied with three of the six prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Untimely Deposit Of State Aid

Although the relief association timely deposited all income received, one municipality incorrectly sent their 2015 state aid allocation to the affiliated fire company as disclosed in Finding No. 1 in this report.

- Failure To Maintain Minutes Of Meetings

Although the relief association provided meeting minutes of all relief association meetings held during the period, the minutes lacked detail as disclosed in Finding No. 2 in this report.

FAWN GROVE FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

- Failure To Maintain A Complete And Accurate Equipment Roster

Although the relief association provided a cumulative inventory roster, the relief association again failed to conduct annual physical equipment inventories as disclosed in Finding No. 4 of this report.

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

FAWN GROVE FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Deposit State Aid

Condition: As disclosed in the Status of Prior Findings section of this report, the relief association did not deposit the 2015 state aid distributed by Peach Bottom Township, in the amount of \$1,723, into a relief association account until the relief association officials were notified of this during the conduct of our audit. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 23, 2015 who forwarded this state aid to the affiliated fire company instead of the relief association on October 14, 2015; however, the relief association did not ensure that the funds were received and deposited into a relief association account.

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 the relief association should ensure the funds are received and deposited in a timely manner.

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to establish internal control procedures to ensure that all state aid is received and deposited into a relief association account.

Effect: As a result of the state aid not being received and 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.

Recommendation: We recommend that the relief association officials immediately locate and deposit the \$1,723 state aid allocation from Peach Bottom Township. In addition, relief association officials should establish accounting and internal control procedures to ensure that all 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.

FAWN GROVE FIREMEN'S 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, the relief association deposited their 2015 state aid allocation from Peach Bottom Township in the amount of \$1,723 on January 25, 2018.

Auditor's Conclusion: We reviewed documentation verifying that the \$1,723 deposit was deposited into a relief association account. Compliance for deposits made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings

Condition: As disclosed in the Status of Prior Findings section of this report, although the relief association provided meeting minutes of all relief association meetings held during the audit period, the relief association failed to maintain detailed minutes of meetings as required by Act 118 and the relief association bylaws. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

. . . 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, the relief association's bylaws at Article No. 3, Section 4 states, in part:

Secretary: The secretary shall keep a true record of the proceedings of every meeting in the minutes.

Furthermore, the relief association's bylaws at Article No. 5, Section 1 states, in part:

All expenditures must be approved by a majority vote at an association meeting and duly recorded in the minutes.

Cause: Relief association officials indicated that they were unaware that maintaining detailed minutes of meetings was required by Act 118 and the relief association bylaws.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

FAWN GROVE FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again recommend that the relief association officials maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by 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: We are concerned by the relief association's failure to fully correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 3 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

Condition: As cited as a verbal observation in our prior audit, the relief association again failed to maintain a Pennsylvania sales tax exemption number. Although the relief association did have its own sales tax exemption number, it expired on November 30, 2009, and is no longer valid.

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

A volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to take measures necessary to maintain a (current/valid) Pennsylvania sales tax exemption number.

Effect: As a result of the relief association's continued failure to maintain a sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on their purchases, which ultimately reduces the funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We again recommend that the relief association officials immediately reapply for a new state sales tax exemption number from the Department of Revenue and furnish this exemption number to all vendors from whom the relief association purchases equipment. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

FAWN GROVE FIREMEN'S RELIEF ASSOCIATION
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.

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

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Failure To Conduct Annual Physical Equipment Inventories

Condition: As disclosed in the Status of Prior Findings section of this report, although the relief association provided a cumulative inventory roster, the relief association again failed to conduct annual physical inventories of equipment and ensure such inventory accounted for all equipment owned by the relief association.

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 again 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 and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: We are concerned by the relief association's failure to fully correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

FAWN GROVE FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2016

Cash	<u>\$ 71,918</u>
------	------------------

FAWN GROVE FIREMEN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 6,208
Fire Services:	
Equipment purchased	\$ 52,525
Equipment maintenance	11,623
Training expenses	562
Total Fire Services	\$ 64,710
Administrative Services:	
Other administrative expenses	\$ 96
Bond premiums	300
Total Administrative Services	\$ 396
Total Expenditures	\$ 71,314

FAWN GROVE FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Fawn Grove Volunteer Firemen's Relief Association Governing Body:

Mr. William G. Kurtz
President

Ms. Robin Wales
Vice President

Ms. Hannah Lowe
Secretary

Ms. Terry Lowe
Treasurer

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

Ms. Cathy E. Kirkwood
Secretary
Fawn Grove Borough

Ms. Amy L. Mottram
Secretary
Fawn Township

Ms. Catherine Bilger
Secretary
Peach Bottom 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.