

# COMPLIANCE AUDIT

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## Flemington Firemen's Relief Association Clinton County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

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March 2017



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Mr. Shawn Smith, President  
Flemington Firemen's Relief Association  
Clinton County

We have conducted a compliance audit of the Flemington 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, 2013 to December, 31, 2015.

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, 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, for the period January 1, 2013 to December, 31, 2015. Therefore, the relief association may be subject to the total withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

- Finding No. 1 – Unauthorized Expenditures
- Finding No. 2 – Undocumented Expenditures
- Finding No. 3 – Undocumented Loan
- Finding No. 4 – Inadequate Relief Association Record Keeping
- Finding No. 5 – Failure To Deposit Proceeds From Surrendered Insurance Contract

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.

March 2, 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. 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Flemington Borough	Clinton	\$7,441	\$7,041	\$6,820
Bald Eagle Township	Clinton	\$ -*	\$3,515	\$ -*

\* Bald Eagle Township did not distribute state aid to this relief association in 2013 or 2015. Under the Municipal Pension Plan Funding Standard and Recovery Act (commonly referred to as Act 205), municipalities receiving funding under the Act may re-distribute state aid received to any relief association providing fire services to the municipality.

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:

Goodwill Hose Company

FLEMINGTON FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Unauthorized Expenditures**

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

Date	Check No.	Payee Description	Amount
01/23/13	EFT	Vendor (Christmas ornaments)	\$ 261
05/05/13	190	Maintenance on fire company owned vehicle	658
unknown	206	Maintenance on fire company owned vehicle	377
08/19/14	208	Maintenance on fire company owned vehicle	711
08/15/14	214	Maintenance on fire company owned vehicle	111
unknown	228	Maintenance on fire company owned vehicle	87
unknown	229	Maintenance on fire company owned vehicle	450
unknown	232	Maintenance on fire company owned vehicle <i>(Net of insurance reimbursement received)</i>	4,919
unknown	234	Maintenance on fire company owned vehicle	170
unknown	235	Maintenance on fire company owned vehicle	329
01/28/15	236	Maintenance on fire company owned vehicle	5
unknown	238	Maintenance on fire company owned vehicle	589
unknown	233	Maintenance on fire company owned vehicle	38
unknown	243	Maintenance on fire company owned vehicle	85
10/07/15	250	Maintenance on fire company owned vehicle	499
Total			\$ 9,289

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1, 11) 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.
- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

Costs associated with these purchases 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.

FLEMINGTON FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

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. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association be reimbursed \$9,289 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 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 – 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>
01/19/13	187	Individual-death benefit	\$ 744
05/23/13	192	Maintenance vendor	200
01/15/14	202	Equipment vendor	480
unknown	203	Equipment vendor	2,366
unknown	204	Training vendor	100
unknown	205	Training vendor	410
unknown	227	Services provider	71
unknown	248	Services provider	181
10/09/15	251	Services provider	350
10/18/15	252	Services provider	350
unknown	253	Services provider	326
unknown	254	Services provider	120
11/20/15	255	Insurance vendor	2,504
Total			<u>\$ 8,202</u>



FLEMINGTON FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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.

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 \$8,202 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.

FLEMINGTON FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Undocumented Loan**

Condition: On December 15, 2013, the relief association made a loan to the affiliated fire company in the amount of \$6,946 without a formal written loan agreement as required by Act 118. Although during 2014, the fire company paid back the loan to the relief association, this repayment did not include interest since there was no formal loan agreement stipulating that a reasonable rate of interest be paid on the loan.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any obligation of an incorporated fire company, provided that the obligation is: (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

In addition, prudent business practice dictates that in order to provide adequate protection of this type of investment, the fire company and the relief association should enter into a formal written loan agreement. This loan agreement should be signed by two officers of both the relief association and the fire company, and notarized and include the following:

- Collateral provisions which pledge assets of the fire company and have a capital value equal to at least 150 percent of the amount of the loan.
- A reasonable amortization schedule for the loan.
- A reasonable rate of interest to be paid on the loan principal outstanding (minimum 3 percent)

Cause: Relief association officials indicated that they were unaware that the loan to the fire company must be documented to ensure compliance with Act 118 provisions.

Effect: The failure to adequately document loans through formal written agreements places the investments at greater risk and could result in lost revenue opportunities. In addition, funds are not available for other investment purposes or to pay for necessary expenditures of the relief association.

FLEMINGTON FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Recommendation: We recommend that the relief association properly execute formal written loan agreements, signed by both parties, specifically identifying the collateral to protect the investment as required by Act 118 and also specifying the payment schedule and interest rate on all future loans provided 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 that 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 – Inadequate Financial Record-Keeping System**

Condition: The relief association's financial record-keeping system did not establish adequate accounting procedures to allow the membership to effectively monitor the relief association's financial operations and to provide effective control over cash receipts, disbursements, and assets. The following deficiencies were noted:

- Upon the initial site visit on November 29, 2016, a journal showing a record of the receipts and disbursements of the relief association during the current audit period was not provided. However, upon return on December 12, 2016, a journal was provided by officials but lacked all of the necessary detailed information such as a recording date for many of the transactions recorded.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Documentation to support various expenditures was not available for examination at the time of the audit (refer to Finding No. 2).
- Checks were not issued in sequential order and often lacked necessary detailed information such as dates written and purchase order numbers (as noted in Findings No. 1 and 2 above). In addition, two of the checks issued in the prior audit period (#171 and #172) could not be located.
- Upon the initial site visit on November 29, 2016, records for 2013 and 2014 were unavailable for inspection. However, upon a return on December 12, 2016, records were provided by officials to support transactions except for those listed in Finding No. 2.

FLEMINGTON FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued):**

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

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it 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, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials indicated that they were unaware of their various record-keeping responsibilities under the Act.

Effect: The failure to maintain adequate records by relief association officials prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We recommend that the relief association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations and provides effective control over cash receipts, disbursements, and assets. 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. 5 – Failure To Deposit Proceeds From Surrendered Insurance Contract**

Condition: In 2014, proceeds from the surrender of an insurance policy in the amount of \$250 were not deposited into a relief association account. As of the date of this report, the proceeds remain outstanding.

Criteria: Prudent business practice dictates that the relief association should closely monitor all insurance policies surrendered to make sure all insurance proceeds are received and timely deposited into a relief association account.

FLEMINGTON FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 5 – (Continued):**

Cause: Relief association officials failed to establish internal control procedures to ensure that proceeds from insurance policies surrendered are timely deposited into a relief association account.

Effect: As a result of the failure to deposit proceeds from surrendered insurance policies, funds were not available to pay general operating expenses, equipment purchases or for investment purposes. In addition, the failure to timely deposit the proceeds from insurance policies surrendered can lead to a greater risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association contact the insurance carrier to determine if a replacement check can be issued and deposit the \$250 resulting from the re-issuance of the proceeds from the cancelled policy. We also recommend that relief association officials establish accounting and internal control procedures to ensure that the proceeds from all future insurance policies surrendered are timely deposited into a relief association account. 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, subsequent to the period under review, on December 12, 2016, the treasurer contacted the insurance company and requested a replacement check.

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

FLEMINGTON FIREMEN'S RELIEF ASSOCIATION  
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.

FLEMINGTON FIREMEN'S RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2015

Cash	\$ 16,519
Fair Value of Investments	<u>1,000</u>
Total Cash and Investments	<u>\$ 17,519</u>

FLEMINGTON FIREMEN'S RELIEF ASSOCIATION  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:

Insurance premiums	\$ 4,777
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Fire Services:

Equipment purchased	\$ 18,614
Equipment maintenance	11,838
Training expenses	1,093
Fire prevention materials	221
Total Fire Services	\$ 31,766

Administrative Services:

Bond premiums	\$ 725
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Other Expenditures:

Undocumented expenditures	8,202
Unauthorized expenditures	9,289
Total Other Expenditures	\$ 17,491

Total Expenditures	\$ 54,759
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FLEMINGTON FIREMEN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Flemington Firemen's Relief Association Governing Body:

**Mr. Shawn Smith**  
President

**Mr. Colton Mellott**  
Vice President

**Mr. Adam Mayes**  
Secretary

**Mr. Anthony M. Mahon**  
Treasurer

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

**Ms. Charity H. Walizer-Etters**  
Secretary  
Flemington Borough

**Ms. Marissa Morgan**  
Secretary  
Bald Eagle Township

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).