

COMPLIANCE AUDIT

The Gilberton Borough Firemen's Relief Association of Pennsylvania Schuylkill County For the Period January 1, 2012 to December 31, 2015

October 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Stephen Bolusky, President
The Gilberton Borough Firemen's Relief Association
of Pennsylvania
Schuylkill County

We have conducted a compliance audit of The Gilberton Borough Firemen's Relief Association 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, 2012 to December 31, 2015.

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 received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures.

Our audit was limited to the areas related to the objectives 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 objectives. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain an independent confirmation of the investment balance directly from the financial institution. Therefore, while the relief association provided certain documentation that indicated that, as of December 31, 2015, the relief association had an investment balance of \$1,902, we were not able to verify this investment balance.

We were also not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided copies of bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matters described in the preceding paragraphs, for the period January 1, 2012 to December 31, 2015:

- The relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding 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, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws

Finding No. 2 – Inadequate Investment Records

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

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.



EUGENE A. DEPASQUALE
Auditor General

October 13, 2016

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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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Gilberton Borough	Schuylkill	\$2,772	\$3,098	\$2,954	\$2,848

The volunteer firefighters' relief association and the affiliated fire service organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

American Hose Company No. 2

Continental Hose Company No. 3

THE GILBERTON BOROUGH FIREMEN'S RELIEF ASSOCIATION OF PENNSYLVANIA
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Insufficient Surety (Fidelity) Bond Coverage

By decreasing the relief association's cash assets to an amount below the maximum protection of the Surety (Fidelity) bond coverage.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Inadequate Relief Association Bylaws

We are concerned by the relief association's failure to correct this previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

THE GILBERTON BOROUGH FIREMEN'S RELIEF ASSOCIATION OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws

Condition: As disclosed in the prior audit report, the existing bylaws of the relief association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws again do not address the procedures to be followed in amending the bylaws and specify the notice to be required with respect to the proposed amendments.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(7, 8 and 9) states, that the relief association's bylaws shall:

- (7) Set out the procedure to be followed in amending bylaws.
- (8) Specify notice required with respect to proposed bylaw amendments, including the time, place and date when the proposed amendments shall be considered.
- (9) Be faithfully preserved, along with amendments thereto and the effective date of the amendments, in permanent form.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to amend the relief association bylaws to meet the bylaw provisions required by Act 118.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We again recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of 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 correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

THE GILBERTON BOROUGH FIREMEN'S RELIEF ASSOCIATION OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Investment Records

Condition: Relief association officials did not maintain adequate records of investments purchased and sold, as well as the source of investment income. Specifically, all investment transactions were not recorded in the relief association's journal, nor were they identified in the minutes of the relief association's meetings. In addition, relief association officials failed to maintain investment statements for the investments held by the relief association.

Furthermore, according to the financial institution's website, the relief association received \$170 in dividend proceeds during the current audit period. However, the dividends were not deposited into a relief association.

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.

Additionally, sound accounting procedures for investment purchases and sales should include the recording of the following:

- Date of purchase or sale of the security
- Identification number of the security
- Rate of interest
- Date of receipt of interest income
- Date of maturity

Cause: Relief association officials failed to establish adequate accounting procedures to record the transactions of each investment. In addition, relief officials failed to deposit the dividend proceeds into a relief association account.

Effect: The failure to maintain an adequate record-keeping system for investment transactions prevents officials from effectively monitoring the relief association's financial position.

THE GILBERTON BOROUGH FIREMEN'S RELIEF ASSOCIATION OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials take the necessary steps to record all investments purchased and sold, and identify the source and amount of investment income, so that all investment transactions are sufficiently documented. In addition, the relief officials should determine where the \$170 of dividends received were deposited during the current audit period and deposit these dividends 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 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. 3 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

Condition: As disclosed as an observation in the prior audit period, the relief association again failed to maintain a Pennsylvania sales tax exemption number. Although the relief association did previously have its own sales tax exemption number, it expired on May 29, 2005 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: Relief association officials indicated that they were unaware that its sales tax exemption number from the Pennsylvania Department of Revenue had expired.

Effect: As a result of the relief association's 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.

THE GILBERTON BOROUGH FIREMEN'S RELIEF ASSOCIATION OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We 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.

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.

THE GILBERTON BOROUGH FIREMEN'S RELIEF ASSOCIATION OF PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2015

Cash	\$ 16,586
Fair Value of Investments	<u>1,902</u>
Total Cash and Investments	<u>\$ 18,488</u>

THE GILBERTON BOROUGH FIREMEN'S RELIEF ASSOCIATION OF PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:

Insurance premiums	\$ 2,499
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Fire Services:

Equipment purchased	\$ 12,825
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Equipment maintenance	5,274
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Total Fire Services	<u>\$ 18,099</u>
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Administrative Services:

Other administrative expenses	\$ 645
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Bond premiums	408
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Total Administrative Services	<u>\$ 1,053</u>
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Total Expenditures	<u><u>\$ 21,651</u></u>
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THE GILBERTON BOROUGH FIREMEN'S RELIEF ASSOCIATION OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Gilberton Borough Firemen's Relief Association of Pennsylvania Governing Body:

Mr. Stephen Bolusky
President

Mr. Frank Jackowiak
Vice President

Ms. Debra Jackowiak
Secretary

Ms. Donna Yashinsky
Treasurer

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

Ms. Christine M. Antalosky
Secretary
Gilberton Borough

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.