

COMPLIANCE AUDIT

Keystone Volunteer Fire Company
Firefighter's Relief Association of the
Borough of McAdoo, PA
Schuylkill County
For the Period
January 1, 2012 to August 24, 2015

April 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Gary Perna, President
Keystone Volunteer Fire Company Firefighter's Relief
Association of the Borough of McAdoo, PA
Schuylkill County

We have conducted a compliance audit of the former Keystone Volunteer Fire Company Firefighter's Relief Association Of The Borough Of McAdoo, PA (former 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 August 24, 2015.

The objective of the audit was to determine if the former 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.

The former relief association officers were 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 complied with applicable state laws, contracts, bylaws, and administrative procedures, including the safeguarding of assets. The former relief association officers were 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.

We were not able to obtain an independent confirmation of the final and total liquidation of the cash balance directly from the financial institution resulting from the dissolution and merger between the former relief association and the McAdoo Firefighter Relief Association of the Borough of McAdoo, PA (MFRA).

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2012 to August 24, 2015, the former 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 – Undocumented Expenditures

Finding No. 2 – Unauthorized Expenditures

Finding No 3 – Inadequate Financial Record Keeping System

In addition, as of August 24, 2015, the former relief association dissolved its organization and transferred all of its remaining monetary assets and equipment to the MFRA of the Borough of McAdoo, PA.

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.

Due to the dissolution and merger of the former relief association, the contents of this report were discussed with the management of the MFRA of the Borough of McAdoo, PA. We would like to thank relief association officials for the cooperation extended to us during the conduct of the audit.

April 3, 2017



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Findings and Recommendations:	
Finding No. 1 – Undocumented Expenditures	3
Finding No. 2 – Unauthorized Expenditure	4
Finding No. 3 – Inadequate Financial Record-Keeping System	5
Supplementary Financial Information	7
Report Distribution List	8

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 former relief association was 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 former relief association's bylaws defined 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 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 associations operate 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 former 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>
McAdoo Borough	Schuylkill	\$4,804	\$5,388	\$5,130	\$ -*

* Beginning in 2015, McAdoo Borough ceased allocating state aid to the former relief association and began distributing its annual state aid allocation to of the Borough of McAdoo, PA.

As of August 24, 2015, the Keystone Volunteer Firefighters’ Relief Association dissolved its organization. Thereafter, it did not receive any further state aid allocations (see Accompanying Expenditure Information on page 3).

The former Keystone volunteer firefighters’ relief association and the affiliated fire service organization are separate, legal entities. The former relief association was affiliated with the former Keystone Volunteer Fire Company No. 1 prior to dissolution.

KEYSTONE VOLUNTEER FIRE COMPANY FIREFIGHTER’S RELIEF ASSOCIATION
OF THE BOROUGH OF MCADOO, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: The former 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>
10-11-12	299	Vendor	\$ 197
10-11-12	300	Insurance carrier	276
08-15-13	106	Vendor	60
08-15-13	107	Vendor	235
Total			<u>\$ 768</u>

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: Former 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 and approvals in detailed minutes of meetings, 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.

KEYSTONE VOLUNTEER FIRE COMPANY FIREFIGHTER’S RELIEF ASSOCIATION
OF THE BOROUGH OF MCADOO, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: Due to the dissolution of the former relief association and subsequent transfer of its remaining assets to the MFRA of the Borough of McAdoo, PA, we are providing officials of the MFRA of the Borough of McAdoo, PA copies of this report so that they are aware of the conditions that were detected during the course of the audit of the former relief association. We recommend that officials of the MFRA of the Borough of McAdoo, PA provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the expenditures or that the relief association be reimbursed \$768 for the undocumented expenditures. We also recommend that current 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: Current 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. 2 – Unauthorized Expenditures

Condition: The former relief association expended funds for former affiliated fire company related expenditures during the current audit period that are not authorized by Act 118 as follows:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
05-20-14	108	Fire Company Bond Premiums	\$ 252
01-08-15	109	Keystone Volunteer Fire Company	3,600
		Total	<u>\$ 3,852</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(12) states:

The funds of any volunteer firefighters’ relief association may be spent:

- (12) To secure insurance against legal liability of the volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or performing their duties as special fire police.

KEYSTONE VOLUNTEER FIRE COMPANY FIREFIGHTER'S RELIEF ASSOCIATION
OF THE BOROUGH OF MCADOO, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued):

Costs associated with expenditures that are the responsibility of the fire company do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Current relief association officials indicated that former officials appeared to be unaware that the aforementioned expenditures made on behalf of the former fire company were not authorized by Act 118.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

Recommendation: As previously noted above, due to the dissolution of the former relief association and subsequent transfer of its remaining assets to the MFRA of the Borough of McAdoo, PA, we are providing this recommendation to the MFRA of the Borough of McAdoo, PA. We recommend that current relief association officials discuss this issue with current fire company officials to seek resolution and/or reimbursement of \$3,852 for the unauthorized expenditures and that current 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: Management of the MFRA relief association of the Borough of McAdoo, PA, 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 – Inadequate Financial Record-Keeping System

Condition: The former 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 deficiencies noted during the audit period were as follows:

- A journal was not maintained to record the receipts and disbursements of the relief association.
- 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.

KEYSTONE VOLUNTEER FIRE COMPANY FIREFIGHTER'S RELIEF ASSOCIATION
OF THE BOROUGH OF MCADOO, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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: Current relief association officials indicated that former relief association officials appeared to be unaware of their various record-keeping responsibilities.

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

Recommendation: As previously noted above, due to the dissolution of the former relief association and subsequent transfer of its remaining assets to the MFRA of the Borough of McAdoo, PA, we are providing this recommendation to the MFRA of the Borough of McAdoo, PA. We recommend that current relief association officials establish and maintain an adequate 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: Management of the MFRA relief association of the Borough of McAdoo, PA, 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.

KEYSTONE VOLUNTEER FIRE COMPANY FIREFIGHTER'S RELIEF ASSOCIATION OF
THE BOROUGH OF MCADOO, PA
SUPPLEMENTARY FINANCIAL INFORMATION

CASH BALANCE
AS OF AUGUST 24, 2015

Cash	\$	-*
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SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2012 TO AUGUST 24, 2015

Expenditures:

Benefit Services:		
Insurance premiums	\$	300
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Fire Services:		
Equipment purchased	\$	4,733
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Administrative Services:		
Other administrative expenses	\$	186
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Other Expenditures:		
Transfer of monetary assets*		9,394
Undocumented expenditures		3,638
Unauthorized expenditures		3,852
Total Other Expenditures	\$	16,884
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Total Expenditures	\$	22,103
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*Transfer of Monetary Assets/Dissolution of Relief Association.

As of August 24, 2015, the former relief association completed the process of dissolution and merged with MFRA of the Borough of McAdoo, PA. Consequently, all remaining monetary assets were liquidated and transferred to MFRA of the Borough of McAdoo, PA. Due to the dissolution of the former relief association, we are providing officials of MFRA of the Borough of McAdoo, PA copies of this report.

KEYSTONE VOLUNTEER FIRE COMPANY FIREFIGHTER'S RELIEF ASSOCIATION OF
THE BOROUGH OF MCADOO, PA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Keystone Volunteer Fire Company Firefighter's Relief Association Of The Borough Of
McAdoo, PA Governing Body:

Mr. Gary Perna, Sr.
President

Mr. Michael Bowman
Vice President

Mr. Gary Perna, Jr.
Secretary

Mr. Lance Borchick
Treasurer

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

Ms. Diane Minneci
Secretary
McAdoo 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.