

COMPLIANCE AUDIT

Kidder Township Volunteer Firemen's Relief Association

Carbon County, Pennsylvania

For the Period

January 1, 2016 to December 7, 2017

March 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. Todd Wood, President
Kidder Township Volunteer Firemen's
Relief Association
Carbon County

We have conducted a compliance audit of the former Kidder 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, 2016 to December 7, 2017.

The objectives of the audit were:

1. To determine if the former relief association took appropriate corrective action to address the findings contained in our prior audit report.
2. 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 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, 2016 to December 7, 2017:

- The former relief association took appropriate corrective action to address six of the nine findings contained in our prior audit report. However, the former 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 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 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Surety (Fidelity) Bond Coverage

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Minutes Of Meetings

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Secure Ownership In Jointly Purchased Vehicle

All three 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.

In addition, as of December 7, 2017, the former relief association completed the process of dissolution and merged with Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA to form Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA. Consequently, all remaining monetary assets and equipment were transferred to the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, 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.

The contents of this report were discussed with the management of the former relief association and, where appropriate, their responses have been included in the report. We would like to thank former relief association officials for the cooperation extended to us during the conduct of the audit.

February 26, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long, sweeping horizontal line extending to the right.

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 Maintain Surety (Fidelity) Bond Coverage.....	5
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Minutes Of Meetings	7
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Secure Ownership Interest In Jointly Purchase Vehicle	7
Supplementary Financial Information	10
Report Distribution List	12

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. 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 did not receive state aid allocations from Kidder Township in 2016 and 2017. The township has not funded this relief association since 2013.

As of December 7, 2017, the former relief association dissolved its organization. (See Supplementary Financial Information)

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

The Kidder Township Fire Company No. 1

KIDDER TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Misappropriation Of Assets

By receiving reimbursement of \$32,821 from the bonding company and the remaining \$6,234 from the affiliated fire company.

- Undocumented Expenditures

By receiving reimbursement of \$8,777 from the affiliated fire company for the undocumented expenditures.

- Inadequate Internal Controls

By adopting sufficient internal control procedures to adequately safeguard relief association assets and ensure the propriety of all relief association transactions.

- Inadequate Signatory Authority For The Disbursement Of Funds

By requiring more than one signature on all negotiable instruments.

- Inadequate Financial Record-Keeping System

By establishing and maintaining 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.

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

KIDDER TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure To Maintain Surety (Fidelity) Bond Coverage
- Failure To Maintain Minutes Of Meetings
- Failure To Secure Ownership Interest In Jointly Purchased Vehicle

We are concerned by the former relief association's failure to correct those previously reported audit findings. Since the former relief association dissolved its organization and consequently transferred its monetary assets to the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA, management of that relief association should strive to implement the recommendations and corrective actions noted in this audit report.

KIDDER TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: As disclosed in our prior audit, the relief association again failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. The relief association's Surety (Fidelity) bond coverage expired on March 23, 2015.

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.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to comply with the Act 118 provisions requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer.

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

Recommendation: Due to the dissolution of the former relief association and affiliated Kidder Township Fire Company No. 1 and the subsequent merger with Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA, we are providing officials of the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA copies of this report so that they are aware of the conditions that were detected during the course of our audit of the former relief association. We recommend that the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA's officials obtain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by Act 118. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Former relief association management agreed with the finding as presented at the audit exit conference.

KIDDER TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Auditor's Conclusion: We are concerned by the former relief association's failure to correct this previously reported audit finding. Since the former relief association dissolved its organization and consequently transferred its monetary assets to the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA, management of that relief association should strive to implement the recommendation and corrective action noted in this audit report.

KIDDER TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Minutes Of Meetings

Condition: As disclosed in the prior audit report, the relief association again did not maintain minutes of meetings as required by Act 118.

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.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to maintain minutes in accordance with Act 118.

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

Recommendation: Due to the dissolution of the former relief association and affiliated Kidder Township Fire Company No. 1 and the subsequent merger with Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA, we are providing officials of the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA copies of this report so that they are aware of the conditions that were detected during the course of our audit of the former relief association. We recommend that the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA's officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record 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: Former relief association management agreed with the finding as presented at the audit exit conference.

Auditor's Conclusion: We are concerned by the former relief association's failure to correct this previously reported audit finding. Since the former relief association dissolved its organization and consequently transferred its monetary assets to the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA, management of that relief association should strive to implement the recommendation and corrective action noted in this audit report.

KIDDER TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Condition: As disclosed in the prior audit report, on July 26, 2010, the relief association expended \$29,870 for the purpose of jointly purchasing a vehicle with the affiliated fire company. As of the date of this report, however, the relief association did not adequately secure its ownership interest in this jointly purchased vehicle.

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.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to adequately secure its proportional ownership interest in the jointly purchased vehicle.

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicle places the relief association's ownership interest at greater risk.

Recommendation: Due to the transfer of the vehicle to the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA, we recommend that Albrightsville Volunteer Firefighters' Relief Association officials execute a formal written agreement with the fire company that enumerates its proportional ownership interest in the jointly purchased vehicle as well as stipulating that the proportionate sales proceeds shall revert to the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA in the event the vehicle is ever sold. If such action is not taken, we recommend that the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA be reimbursed \$29,870. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

KIDDER TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Management's Response: Former relief association management agreed with the finding as presented at the audit exit conference.

Auditor's Conclusion: We are concerned by the former relief association's failure to correct this previously reported audit finding. Since the former relief association dissolved its organization and consequently transferred its monetary assets to the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA, management of that relief association should strive to implement the recommendation and corrective action noted in this audit report.

KIDDER TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 7, 2017

Cash	<u>\$</u>	<u>0</u>
------	-----------	----------

KIDDER TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 7, 2017

Expenditures:

Administrative Services:	
Other administrative expenses	<u>\$ 22</u>
Other Expenditures:	
Transfer of monetary assets *	<u>\$ 48,081</u>
 Total Expenditures	 <u><u>\$ 48,103</u></u>

*Transfer of Monetary Assets/Dissolution of Relief Association.

As of December 7, 2017, the former relief association completed the process of dissolution and merged with Albrightsville Volunteer Firefighters' Relief Association to form Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA. Consequently, all remaining monetary assets and equipment were transferred to the Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA. Due to the dissolution of the former relief association, we are providing officials of Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA copies of this report.

KIDDER 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

Kidder Township Volunteer Firemen's Relief Association Governing Body:

Mr. Todd Wood
President

Ms. Colleen Gower
Secretary

Mr. Elwood Troell
Treasurer

Albrightsville Volunteer Firefighters' Relief Association, Albrightsville, PA Governing Body:

Mr. Richard Smallenburg
President

Mr. Michael Riley
Vice President

Ms. Justine Blew
Secretary

Mr. Eugene Getz
Treasurer

Mr. Thomas Kelly
Director

Mr. Stephen Kanyuck
Director

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

Ms. Lisa M. Klem
Secretary
Kidder Township

KIDDER TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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.