

COMPLIANCE AUDIT

Miles Township Volunteer Firefighters Relief Association Centre County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

December 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Eric Miller, President
Miles Township Volunteer Firefighters
Relief Association
Centre County

We have conducted a compliance audit of the Miles Township Volunteer Firefighters 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 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.

Based on our audit procedures, we conclude that, for the period January 1, 2013 to December 31, 2015:

- The relief association took appropriate corrective action to address one of the four 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 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 Period Recommendation – Failure to Maintain Officers’ Surety (Fidelity) Bond Coverage

Finding No. 2 – Noncompliance With Prior Audit Period Recommendation – Failure to Segregate Relief Association Officers’ Duties

Finding No. 3 - Noncompliance With Prior Audit Period Recommendation- Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 4 – Unauthorized Expenditure

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.

November 22, 2016



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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Miles Township	Centre	\$11,873	\$11,327	\$10,917

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:

Miles Township Hose Company

MILES TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Undocumented Expenditures

By receiving reimbursement in the amount of \$866 from the affiliated fire company on November 7, 2013.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure to Maintain Officers' Surety (Fidelity) Bond Coverage
- Failure To Segregate Relief Association Officers' Duties
- Failure to Maintain a Complete And Accurate Equipment Roster

Although the relief association provided a listing of equipment during the current audit period, the listing provided was incomplete and did not contain evidence that a physical inventory was conducted on an annual basis as disclosed in Finding No. 3 in this report.

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

MILES TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: The relief association 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 February 2, 2014. As of December 31, 2015, the relief association's cash assets totaled \$20,724.

A similar condition was noted in our prior audit report.

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: We again recommend that the relief association 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: Relief association management agreed with the finding as presented at the audit exit conference and, subsequent to the audit period on September 28, 2016, the relief association obtained Surety (Fidelity) bond coverage in an amount greater than the relief association's maximum cash balance.

Auditor's Conclusion: We reviewed the documentation verifying the Surety (Fidelity) bond coverage. Continued compliance for maintaining adequate bond coverage will be subject to verification through our next audit.

MILES TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Period Recommendation – Failure To Segregate Relief Association Officers’ Duties

Condition: During the current audit period, we identified that the same individual holds the position of both secretary and treasurer of the relief association. We also noted that this individual is the municipal secretary of the township which allocates state aid to the relief association. A similar condition was noted in our prior audit report.

Criteria: Prudent business practice dictates that the duties of the secretary and treasurer be sufficiently segregated. An adequate segregation of duties is the primary internal control intended to prevent or decrease the risk of errors or irregularities.

The minimum requirements of the secretary’s position, pertaining to a relief association, are to maintain detailed minutes of meetings authorizing the relief association’s financial operations. The secretary should review and coordinate the amending of the bylaws governing the relief association so that the bylaws meet the minimum requirements of Act 118.

The minimum requirements of the treasurer’s position, pertaining to a relief association, are to maintain an account of all funds belonging to the relief association. The treasurer shall maintain a journal and ledger detailing all financial transactions of the relief association along with documentation supporting the receipts and disbursements. The treasurer should co-sign all negotiable instruments along with another relief association officer. Also, financial statements should be prepared at least on an annual basis by the treasurer.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to ensure that the same person does not hold the positions of both secretary and treasurer of the relief association which negates the internal controls associated with the appropriate segregation of duties.

Effect: An inadequate segregation of duties could prevent relief association officials and members from effectively monitoring the relief association’s financial transactions. Additionally, as previously disclosed, it negates the checks and balances necessary to detect and correct financial errors or irregularities in the relief association’s accounting system.

Recommendation: We again recommend that relief association officials ensure that there is adequate segregation of duties between the relief association’s secretary and treasurer. We also again recommend that relief association officials review its accounting and internal control procedures to ensure that the duties being performed by the secretary and treasurer are sufficiently segregated so that relief association assets are adequately safeguarded. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

MILES TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No 2 – (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 at the relief association's November 2016 meeting.

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

Finding No. 3 – Noncompliance With Prior Audit Period Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: As disclosed in the Status of Prior Findings section of this report, although the relief association provided a listing of equipment during the current audit period, the listing provided was incomplete and did not include sufficient evidence that an annual physical inventory of equipment was being performed on all relief association owned equipment.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

Cause: Relief association officials believed that the relief association's procedures for recording equipment purchases in the year acquired was adequate. However, officials were unaware of the importance of adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The continued failure to maintain a cumulative detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

MILES TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We again recommend that relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory 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 at the audit exit conference and indicated that the treasurer will work with the fire chief to establish procedures surrounding the inventory issue including maintaining the equipment inventory electronically and this will be a work in process.

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

Finding No. 4 – Unauthorized Expenditure

Condition: The relief association expended \$1,265 for maintenance on an affiliated fire service organization's vehicle during the current audit period that is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1) states:

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

- (1) 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 maintenance on an affiliated fire service organization's vehicle do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the expenditure for the maintenance on an affiliated fire service organization's vehicle was 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.

MILES TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend that the relief association be reimbursed \$1,265 for the unauthorized expenditure 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 upon receipt of the formal audit report from the department.

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

MILES TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2015

Cash	<u>\$ 20,724</u>
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MILES TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:	
Relief benefits	<u>\$ 390</u>
Fire Services:	
Equipment purchased	\$ 33,552
Equipment maintenance	2,322
Training expenses	<u>2,625</u>
Total Fire Services	<u>\$ 38,499</u>
Other Expenditures:	
Unauthorized expenditures	<u>\$ 1,265</u>
Total Expenditures	<u><u>\$ 40,154</u></u>

MILES TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Miles Township Volunteer Firefighters Relief Association Governing Body:

Mr. Eric Miller
President

Mr. Jason Bartlebaugh
Vice President

Mr. Rick Bair
Secretary/Treasurer

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

Mr. Rick Bair
Secretary
Miles 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.