

COMPLIANCE AUDIT

Volunteer Firemen's Relief Association of the Milford Township Volunteer Fire Co. No. 1 of Milford Square Bucks County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

December 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



**Commonwealth of Pennsylvania
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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Ryan Hunsicker, President
Volunteer Firemen's Relief Association
of the Milford Township Volunteer Fire
Co. No. 1 of Milford Square
Bucks County

We have conducted a compliance audit of the Volunteer Firemen's Relief Association of the Milford Township Volunteer Fire Co. No. 1 of Milford Square (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, 2015 to December 31, 2016.

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 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, 2015 to December 31, 2016, the 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 – Finding – Inadequate Internal Controls

Finding No. 2 – Failure To Maintain A Complete And Accurate Membership Roster

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 response has 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.

December 26, 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. 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 was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2015</u>	<u>2016</u>
Milford Township	Bucks	\$52,674	\$52,538

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:

Milford Township Volunteer Fire Co. No. 1

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE MILFORD TOWNSHIP
VOLUNTEER FIRE CO. NO. 1 OF MILFORD SQUARE
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Internal Controls

Condition: The relief association has failed to establish adequate internal controls. The following material internal control weaknesses existed during the audit period:

- The relief association utilizes a petty cash account, but they have not established a written policy governing the procedures for its use.
- The petty cash account is not accounted for on the treasurer's report.
- The relief association utilizes online banking. However, they have not established a written policy governing the procedures for its use.
- The treasurer performs both the online transactions and bank reconciliations.

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.

In addition, Article 3 Section 3 of the relief association's bylaws states, in part:

- The treasurer shall keep account of all money belonging to the Relief Association...and annually present to the membership a written financial statement summarizing the financial transactions of the relief association.

Furthermore, prudent business practice dictates that:

- Minutes of meetings should contain a treasurer's report with petty cash listed.
- A policy should be established for the use of a petty cash fund.
- A policy should be established for the use of online banking.
- Two separate officers should perform the online banking and bank reconciliations.

Cause: Relief association officials failed to establish adequate internal controls to ensure the propriety of expenditures and proper documentation of relief association transactions. The relief association officials indicated that they were unaware of the relief association's ineffective internal control system.

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets and prevented the verification as to whether relief association business was presented before the membership for discussion and approval. Furthermore, the lack of effective internal controls places the relief association funds at greater risk for misappropriation.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE MILFORD TOWNSHIP
VOLUNTEER FIRE CO. NO. 1 OF MILFORD SQUARE
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the relief association officials adopt internal control procedures which will require the following:

- Establishment of a written policy governing the procedures for a petty cash fund.
- Reporting of the balance of the petty cash fund monthly at the relief association's meetings and documented in the treasurer's report.
- Establishment of a written policy governing the procedures for performing online banking.
- Separation of the duties of performing online banking and monthly bank reconciliations.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION.

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. 2 – Failure To Maintain A Complete And Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members' mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials indicated that they were unaware that they should maintain a comprehensive roster of relief association members.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE MILFORD TOWNSHIP
VOLUNTEER FIRE CO. NO. 1 OF MILFORD SQUARE
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE MILFORD TOWNSHIP
VOLUNTEER FIRE CO. NO. 1 OF MILFORD SQUARE
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2016

Cash	\$ 102,691
Fair Value of Investments	<u>29,581</u>
Total Cash and Investments	<u><u>\$ 132,272</u></u>

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE MILFORD TOWNSHIP
VOLUNTEER FIRE CO. NO. 1 OF MILFORD SQUARE
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:

Insurance premiums	\$ 10,738
Tokens of sympathy and goodwill	145
Total Benefit Services	<u>\$ 10,883</u>

Fire Services:

Equipment purchased	\$ 92,342
Equipment maintenance	18,355
Training expenses	1,201
Fire prevention materials	2,519
Total Fire Services	<u>\$ 114,417</u>

Administrative Services:

Other administrative expenses	\$ 115
Bond premiums	500
Total Administrative Services	<u>\$ 615</u>

Other Expenditures:

Payments on loan	<u>\$ 23,401</u>
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Total Expenditures	<u><u>\$ 149,316</u></u>
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VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE MILFORD TOWNSHIP
VOLUNTEER FIRE CO. NO. 1 OF MILFORD SQUARE
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Volunteer Firemen's Relief Association of the Milford Township Volunteer Fire Co. No. 1 of
Milford Square Governing Body:

Mr. Ryan Hunsicker
President

Mr. Charles Barker
Vice President

Mr. Kenneth A Butz
Secretary

Mr. Edward M Carroll
Treasurer

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

Mrs. Marilyn Stecker
Secretary
Milford 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.