

# COMPLIANCE AUDIT

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## Millerstown Volunteer Firemen's Relief Association Perry County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

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June 2017



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Ms. Amber Fegley, President  
Millerstown Volunteer Firemen's  
Relief Association  
Perry County

We have conducted a compliance audit of the Millerstown 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, 2014 to December 31, 2016.

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 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.

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, 2014 to December 31, 2106:

- The relief association took appropriate corrective action to address the findings contained in our prior audit report.
- 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 – Unauthorized Expenditures

Finding No. 2 – Undocumented Expenditures

Finding No. 3 – Untimely Deposit Of State Aid

Finding No. 4 – Inadequate Signatory Authority For Disbursement Of Funds

Finding No. 5 – Failure To Conduct Annual Physical Equipment Inventories

The five findings contained in this report cite conditions that existed in the operation of the relief association 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.

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.

June 16, 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 municipalities:

| <u>Municipality</u>  | <u>County</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|----------------------|---------------|-------------|-------------|-------------|
| Greenwood Township   | Juniata       | \$2,446     | \$2,500     | \$2,527     |
| Susquehanna Township | Juniata       | \$ 413      | \$ 391      | \$ 391      |
| Greenwood Township   | Perry         | \$7,148     | \$6,841     | \$6,830     |
| Millerstown Borough  | Perry         | \$3,908     | \$3,757     | \$3,716     |
| Tuscarora Township   | Perry         | \$6,460     | \$6,239     | \$6,195*    |

\* The 2016 state aid allocation received from Tuscarora Township was not deposited by the relief association until April 27, 2017 as disclosed in Finding No. 3 in this report.

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:

Millerstown Fire Department, Inc.

MILLERSTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATION

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

- Failure To Deposit State Aid

Although the relief association deposited the outstanding 2013 state aid allocation from Millerstown Borough amounting to \$4,164 on June 9, 2014, the relief association did not ensure that all income received during the current audit period was deposited timely into a relief association account as disclosed in Finding No. 3.

- Failure To Maintain A Complete And Accurate Equipment Roster

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

MILLERSTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Unauthorized Expenditures**

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

| <u>Date</u> | <u>Check No.</u> | <u>Description</u>                        | <u>Amount</u>    |
|-------------|------------------|---|------------------|
| 08/24/15    | 304              | Fire company loan payment                 | \$ 11,514        |
| 09/12/16    | 416              | Maintenance on fire company owned vehicle | <u>394</u>       |
| Total       |                  |   | <u>\$ 11,908</u> |

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(11) states:

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

- (11) 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 these items do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118.

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

Recommendation: We recommend that the relief association be reimbursed \$11,908 for the unauthorized expenditures 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$11,908 for the unauthorized expenditures on May 2, 2017.



MILLERSTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$11,908 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

**Finding No. 2 – Undocumented Expenditures**

Condition: The 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>        |
|-------------|------------------|--------------------------|----------------------|
| 10/29/14    | 265              | Grocery merchant         | \$ 95                |
| 10/29/14    | 266              | Grocery merchant         | 136                  |
| 05/17/15    | 441              | Training vendor          | 200                  |
| Total       |                  |                          | <u><u>\$ 431</u></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: 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, 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.

MILLERSTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

**Recommendation:** We recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the expenditures or that the relief association be reimbursed \$431 for the undocumented expenditures. We also recommend that the 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:** Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the affiliated fire company reimbursed the relief association \$431 for the undocumented expenditures on May 2, 2017.

**Auditor's Conclusion:** We reviewed documentation verifying that the reimbursement of \$431 was received. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

**Finding No. 3 – Untimely Deposit Of State Aid**

**Condition:** The relief association did not deposit the 2016 state aid allocation it received from Tuscarora Township, in the amount of \$6,195 in accordance with Act 205. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 20, 2016, who forwarded this state aid on October 20, 2016, within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, the 2016 state aid allocation was erroneously distributed to and deposited into the fire company's general account by the Millerstown Fire Department instead of the relief association. Although the error was eventually discovered, funds were not deposited into an appropriate relief association account until April 27, 2017.

**Criteria:** Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

MILLERSTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Cause: Relief association officials failed to establish adequate internal control procedures to monitor the municipality's distribution of state aid to ensure that all income due the relief association was appropriately received and deposited timely into a relief association account.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association adopt adequate internal control procedures to monitor the municipality's distribution of state aid to ensure the timely receipt and deposit of all future income 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. 4 – Inadequate Signatory Authority For The Disbursement Of Funds**

Condition: During the current audit engagement, we identified 3 checks out of 117 checks drawn on the relief association's checking account that only contained the signature of one officer, even though two signatures are required by Act 118 and the relief association bylaws. Issuing checks with the signature of only one officer negates the relief association's internal control over the disbursement process. In addition, we identified an additional 26 checks out of 117 checks drawn on the relief association's checking account that contained two signatures; however neither signature was the disbursing officer's signature as required by Act 118 and the relief association bylaws.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

MILLERSTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

In addition, the relief association's bylaws at Article VII, Section 1, states:

The signatures of at least two officers, one of whom shall be the treasurer, shall be required for the issuance of relief association checks, withdrawal from the association savings account, redemption of any relief association investment, or on any other negotiable instrument issued by the association.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: Relief association officials neglected to establish adequate internal control procedures that require the signatures of at least two officers, one of whom shall be the treasurer, on all negotiable instruments.

Effect: As a result of the relief association officer issuing checks with only one signature and issuing checks without the treasurer's signature, assets were placed at greater risk as expenditures were being made without a second relief association officer or the disbursing officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

Recommendation: We recommend that relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118 and the relief association's bylaws. 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.

MILLERSTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 5 – Failure To Conduct Annual Physical Equipment Inventories**

Condition: As cited as a verbal observation in our prior audit, relief association officials failed to conduct annual physical inventories of equipment and ensure such inventory accounted for all equipment owned by the relief association.

Criteria: Sound business practice dictates that annual inventories are conducted to ensure the accuracy of the relief association's equipment roster.

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures to ensure the performance of annual physical equipment inventories.

Effect: The continued failure to perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association owned equipment.

Recommendation: We again recommend that relief association officials ensure they perform an annual physical inventory of all operable equipment and that the completion of the inventories 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 they will take action to comply with the recommendation.

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

MILLERSTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH BALANCE  
AS OF DECEMBER 31, 2016

|      |                  |
|------|------------------|
| Cash | <u>\$ 34,589</u> |
|------|------------------|

MILLERSTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2016

Expenditures:

|                                 |           |
|---------------------------------|-----------|
| Benefit Services:               |           |
| Tokens of sympathy and goodwill | \$ 1,135  |
|                                 |           |
| Fire Services:                  |           |
| Equipment purchased             | \$ 53,944 |
| Equipment maintenance           | 1,728     |
| Training expenses               | 9,303     |
| Fire prevention materials       | 1,063     |
| Total Fire Services             | \$ 66,038 |
|                                 |           |
| Administrative Services:        |           |
| Other administrative expenses   | \$ 1,752  |
| Bond premiums                   | 256       |
| Total Administrative Services   | \$ 2,008  |
|                                 |           |
| Other Expenditures:             |           |
| Undocumented expenditures       | \$ 431    |
| Unauthorized expenditures       | 11,908    |
| Total Other Expenditures        | \$ 12,339 |
|                                 |           |
| Total Expenditures              | \$ 81,520 |

MILLERSTOWN 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

Millerstown Firemen's Relief Association Governing Body:

**Ms. Amber Fegley**  
President

**Mr. David Foose**  
Vice President

**Ms. Emily Craig**  
Secretary

**Mr. Greg Strayer**  
Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report:

**Ms. Donna J. Wood**  
Secretary  
Greenwood Township - Juniata

**Ms. Brenda Arnold**  
Secretary  
Susquehanna Township

**Ms. Kathleen Black**  
Secretary  
Greenwood Township - Perry

**Ms. Karen Knellinger**  
Secretary  
Millerstown Borough

**Ms. Debra Campbell**  
Secretary  
Tuscarora Township



MILLERSTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

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