

COMPLIANCE AUDIT

Nescopeck Firemen's Relief Association Luzerne County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

May 2018



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. David Shoemaker, President
Nescopeck Firemen's Relief Association
Luzerne County

We have conducted a compliance audit of the Nescopceck 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, 2015 to December 31, 2017.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding 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 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, 2017:

- The relief association took appropriate corrective action to address the finding 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 – Inadequate Signatory Authority For The Disbursement Of Funds

Finding No. 2 – Failure To Deposit Proceeds From Investments Sold

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.

May 7, 2018



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>	<u>2017</u>
Nescopeck Borough	Luzerne	\$7,491	\$7,421	\$6,767

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:

Nescopeck Volunteer Fire Company No. 1

NESCOPECK FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Inadequate Relief Association Bylaws

By revising the relief association bylaws to meet the minimum requirements of Act 118.

NESCOPECK FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 3 checks out of 9 randomly selected checks drawn from the relief association's checking account that did not contain the proper signatory authority. The three checks contained the signatures of two relief association officers; however, neither of the two signatures were that of the disbursing officer as required by Act 118. In addition, the signature of only one relief association trustee was used for the sale of a certificate of deposit, although the signatures of at least two relief association officers are required.

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.

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 (one of whom shall be the disbursing officer) 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 disbursing officer) on all negotiable instruments.

Effect: As a result of the relief association officer issuing checks without the signature of the disbursing officer, assets were placed at greater risk as expenditures were made without adhering to the mandatory requirement of Act 118.

Recommendation: We recommend that the 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. 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.

NESCOPECK FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Deposit Proceeds From Investments Sold

Condition: In March of 2015, proceeds from the sale of a certificate of deposit in the amount of \$26,422 were erroneously deposited into the affiliated fire company's certificate of deposit account.

Criteria: Prudent business practice dictates that the relief association should closely monitor all investments sold to make sure all proceeds are received and timely deposited into a relief association account.

Cause: Relief association officials failed to establish internal control procedures to ensure that all proceeds from investments sold were timely deposited into a relief association account.

Effect: The failure to deposit the investments sold can lead to a greater risk that funds could be lost or misappropriated. As a result of the proceeds from the investments sold being deposited into a fire company account, the relief association was unable to use the funds to purchase replacement equipment, for general operating expenses, or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$26,422 (plus interest) for the erroneous deposit. We also recommend the relief association officials establish accounting and internal control procedures to ensure that the proceeds from all future investments sold are timely deposited 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$27,844 (proceeds plus interest) on March 2, 2018.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$27,844 was received. Compliance for future investments sold will be subject to verification through our next audit.

NESCOPECK FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 20,067
Fair Value of Investments*	<u>27,839</u>
Total Cash and Investments	<u>\$ 47,906</u>

*In March of 2015, the proceeds from the sale of a relief association certificate of deposit were erroneously deposited into an affiliated fire company certificate of deposit account. In March of 2018, the proceeds (plus interest) were reimbursed to the relief association by the affiliated fire company. As such, the Fair Value of Investments above does not reflect/include the value of that certificate of deposit (See Finding No. 2).

NESCOPECK FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:

Insurance premiums	\$ 4,107
Death benefits	800
Total Benefit Services	<u>\$ 4,907</u>

Fire Services:

Equipment purchased	\$ 493
Equipment maintenance	1,311
Training expenses	365
Total Fire Services	<u>\$ 2,169</u>

Administrative Services:

Officer compensation	\$ 1,800
Other administrative expenses	5,916
Bond premiums	725
Total Administrative Services	<u>\$ 8,441</u>

Total Expenditures	<u><u>\$ 15,517</u></u>
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NESCOPECK FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Nescopeck Firemen's Relief Association Governing Body:

Mr. David Shoemaker
President

Mr. Daniel Dietterick, Sr.
Vice President

Ms. Sharon Seashock
Secretary

Mr. Robert Betterly
Treasurer

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

Ms. Sheri Custer
Secretary
Nescopeck 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.