

COMPLIANCE AUDIT

Newburg-Hopewell Firemen's Relief Association

Cumberland County, Pennsylvania

For the Period

January 1, 2013 to December 31, 2015

August 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Mark Wickward, President
Newburg-Hopewell Firemen's
Relief Association
Cumberland County

We have conducted a compliance audit of the Newburg-Hopewell 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, 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 finding 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 did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding 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 Recommendation –
Insufficient Surety (Fidelity) Bond Coverage

Finding No. 2 – Inadequate Signatory Authority For The Disbursement Of
Funds

Finding No. 3 – Payment Of Pennsylvania Sales Tax

Finding No. 4 – Inadequate Relief Association Bylaws

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.

July 15, 2016



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Finding	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage	4
Finding No. 2 – Inadequate Signatory Authority For The Disbursement Of Funds	5
Finding No. 3 – Payment Of Pennsylvania Sales Tax	6
Finding No. 4 – Inadequate Relief Association Bylaws	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 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Hopewell Township	Cumberland	\$17,016	\$16,102	\$15,300
Newburg Borough	Cumberland	\$ 2,036	\$ 1,920	\$ 1,835
North Newton Township	Cumberland	\$ 3,000	\$ 3,000	\$ 2,895
Upper Mifflin Township	Cumberland	\$ 4,529	\$ 4,286	\$ 4,142
Lurgan Township	Franklin	\$ 7,599	\$ 7,209	\$ 6,913

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:

Newburg-Hopewell Volunteer Fire Company

NEWBURG-HOPEWELL FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with the following prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Insufficient Surety (Fidelity) Bond Coverage

NEWBURG-HOPEWELL FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$150,000; however, as of December 31, 2015, the relief association's cash assets totaled \$152,789. 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 monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

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

Recommendation: We again recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

NEWBURG-HOPEWELL FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and, effective January 1, 2016, the relief association management increased their bond coverage to an amount greater than the total cash balance.

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

Finding No. 2 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 10 checks out of 39 checks drawn on the relief association's money market 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.

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 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 on all negotiable instruments.

Effect: As a result of the relief association officer issuing checks with only one signature, assets were placed at greater risk as expenditures were being made without a second relief association 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.

NEWBURG-HOPEWELL FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

Finding No. 3 – Payment Of Pennsylvania Sales Tax

Condition: The relief association paid \$1,280 of Pennsylvania sales tax to a vendor from which the relief association purchased equipment. This payment would not have been required if the relief association had provided its sales tax exemption number to the vendor.

Criteria: Act 118 at 35 Pa.C.S. 7415(e) states:

A volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

Cause: Relief association officials were aware of the necessity to provide their state sales tax exemption number to all vendors from which the relief association purchases equipment; however, the relief association neglected to provide a copy of their renewed sales tax certificate to the vendor.

Effect: As a result of the relief association's failure to provide its sales tax exemption number to all vendors, the relief association was required to pay Pennsylvania sales tax on its purchase, which reduced the funds otherwise available for general operating expenditures and for investment purposes.

NEWBURG-HOPEWELL FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the relief association officials seek a refund of the sales tax paid, in the amount of \$1,280, by filing an appeal form (REV-65BA) with the Pennsylvania Department of Revenue's Board of Appeals. In addition, we recommend that, in the future, relief association officials furnish its state sales tax exemption number to all vendors from which the relief association purchases equipment. 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 Relief Association Bylaws

Condition: The existing bylaws of the relief association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not address the following:

- Conditions of termination of membership.
- Procedures for calling regularly scheduled meetings and establishing a clear quorum requirement.
- Consistent language regarding what constitutes a majority for special meeting proceedings.
- Specific meeting dates for required elections to be held in January.
- A clearly stated requirement designating the Treasurer as the disbursing officer, and requiring the signatures of at least two officers, one of whom shall be the disbursing officer, for the issuance of checks, withdrawals and the investment of funds.
- Approval methodology for the disbursement of funds.
- A clearly stated description of how to properly amend the relief association's bylaws and constitution.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(1-3, 5-10) states, that the relief association's bylaws shall:

- (1) Specify the requirements for securing membership, voting rights of different classes of members, if there be different classes, and conditions under which membership may be terminated.

NEWBURG-HOPEWELL FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

- (2) State the notice requirements and procedure to be followed in calling meetings, as well as quorum requirements for regular and special meetings of the membership and for regular and special meetings of the body which governs the operations of the association between membership meetings, and shall designate that body, whether it be a board of directors, trustees or any similar body such as an executive committee. Unless otherwise provided for in the bylaws, powers and duties of officers, directors and trustees shall be those which normally pertain to such positions in nonprofit corporations.
- (3) 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.
- (5) State the procedure to be followed in nominating and in electing officers, trustees, directors, and members of the executive committee, according to the provisions which have been made for establishment of those positions.
- (6) Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.
- (7) Set out the procedure to be followed in amending bylaws.
- (8) Specify notice required with respect to proposed bylaw amendments, including the time, place and date when the proposed amendments shall be considered.
- (9) Be faithfully preserved, along with amendments thereto and the effective date of the amendments, in permanent form.
- (10) Contain such other provisions as may, to the membership, seem appropriate or necessary to the orderly conduct of affairs of the association.

Furthermore, the relief association bylaws should authorize and clearly specify the criteria to be met before receiving death or relief benefits and the amount of any benefit payments, if applicable. In addition, the bylaws should address the authorization of compensation to relief association officers, if applicable.

Cause: Act 118 superseded Act 84 in 2010 and gave some clarity to the bylaw provisions. However, the relief association officials did not realize the bylaws were not in compliance with Act 118.

NEWBURG-HOPEWELL FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of the relief association. 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 and indicated they will take action to comply with the recommendation.

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

NEWBURG-HOPEWELL FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2015

Cash	<u>\$ 152,789</u>
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NEWBURG-HOPEWELL FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:	
Insurance premiums	\$ 5,810
Fire Services:	
Equipment purchased	\$ 67,227
Equipment maintenance	2,773
Training expenses	6,184
Total Fire Services	<u>\$ 76,184</u>
Administrative Services:	
Other administrative expenses	\$ 171
Bond premiums	474
Total Administrative Services	<u>\$ 645</u>
Total Expenditures	<u><u>\$ 82,639</u></u>

NEWBURG-HOPEWELL FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Newburg-Hopewell Firemen's Relief Association Governing Body:

Mr. Mark Wickward
President

Mr. Harry Killian
Treasurer

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

Mr. Chris Bender
Secretary
Newburg Borough

Ms. Kimberly S. Myers
Secretary
Hopewell Township

Ms. JoAnna Miller
Secretary
Lurgan Township

Ms. Bonnie L. Myers
Secretary
North Newton Township

Ms. Ruth Ann Myers
Secretary
Upper Mifflin Township

NEWBURG-HOPEWELL FIREMEN'S RELIEF ASSOCIATION
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