

COMPLIANCE AUDIT

Oley Fire Company Relief Association of Oley, Berks County, Pennsylvania

For the Period
January 1, 2015 to December 31, 2016

March 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Gene Langdon, President
Oley Fire Company Relief Association
of Oley, Berks County, Pennsylvania

We have conducted a compliance audit of the Oley Fire Company Relief Association of Oley, Berks County, Pennsylvania (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 objective. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain independent confirmations of the cash balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2016, the relief association had a cash balance of \$59,272, we were not able to verify the cash balance.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, 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 – Unauthorized Expenditures

Finding No. 2 – Failure To Deposit Reimbursement

Finding No. 3 – Undocumented Expenditure

Finding No. 4 – Insufficient Documentation Of Loan To The Relief Association

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.

March 14, 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2015</u>	<u>2016</u>
Oley Township	Berks	\$27,043	\$27,035
Pike Township	Berks	\$ 3,160	\$ 3,148

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:

Oley Fire Company

OLEY FIRE COMPANY RELIEF ASSOCIATION OF OLEY, BERKS COUNTY,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

Condition: The relief association expended \$2,350 for lights installed on an ambulance during the current audit period that is not authorized by Act 118.

In addition, subsequent to the period under review, on March 17, 2017, the relief association reimbursed the Oley Fire Company Ambulance \$1,073 for 17 winter parkas above the number of volunteer ambulance staff listed on their membership roster.

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

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

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 the purchase of a lighting for an ambulance and parkas for paid staff 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 lighting and parkas were 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.

Recommendation: We recommend that the relief association be reimbursed \$3,423 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 indicated they will take action to comply with the recommendation.

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

OLEY FIRE COMPANY RELIEF ASSOCIATION OF OLEY, BERKS COUNTY,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Deposit Reimbursement

Condition: On November 5, 2016, the relief association expended \$3,299 for ten pagers and chargers for which the affiliated fire company was awarded a grant for. As such, it was documented that the relief association was to be reimbursed for the expenditure; however, the relief association never received the reimbursement.

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

Cause: Relief association officials failed to establish internal control procedures to ensure that all reimbursements are received and timely deposited into a relief association account.

Effect: The failure to deposit all relief association reimbursements in a timely manner can lead to a greater risk that funds could be lost or misappropriated. As a result of the reimbursement not being received, 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 receive the reimbursement in the amount of \$3,299. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all reimbursements are timely deposited in 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. 3 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$1,168 to Oley Fire Company Ambulance on January 14, 2015.

OLEY FIRE COMPANY RELIEF ASSOCIATION OF OLEY, BERKS COUNTY,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 an invoice, made it impossible to determine if the expenditure was 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.

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as an invoice, to ensure the propriety of the expenditure or that the relief association be reimbursed \$1,168 for the undocumented expenditure. 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 indicated they will take action to comply with the recommendation.

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

OLEY FIRE COMPANY RELIEF ASSOCIATION OF OLEY, BERKS COUNTY,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Insufficient Documentation Of Loan To The Relief Association

Condition: On May 11, 2016, the fire company expended \$25,740 on behalf of the relief association for the purpose of purchasing 26 air cylinders; however, the loan transaction was insufficiently documented as evidenced by the following:

- The loan did not have a formal written agreement signed by both parties.
- The loan did not specify the payment schedule.

Criteria: Adequate accounting and internal control procedures would dictate the loan transaction be fully documented through a formal written agreement that specifies the payment schedule and is signed by both parties.

Cause: Relief association officials indicated that they were unaware of the necessity to maintain complete, written documentation of their financial obligations.

Effect: As a result of the loan being insufficiently documented, relief association officials were unable to effectively monitor the relief association's financial position.

Recommendation: We recommend that the relief association officials obtain a formal written loan agreement that specifies the payment schedule and is signed by both parties. If such documentation cannot be acquired, we recommend that the loan be immediately liquidated. 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.

OLEY FIRE COMPANY RELIEF ASSOCIATION OF OLEY, BERKS COUNTY,
PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2016

Cash	<u>\$ 59,272</u>
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OLEY FIRE COMPANY RELIEF ASSOCIATION OF OLEY, BERKS COUNTY,
PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 16,004
	<hr/>
Fire Services:	
Equipment purchased	\$ 17,657
Equipment maintenance	7,626
Training expenses	8,289
Fire prevention materials	2,160
Total Fire Services	<hr/> \$ 35,732 <hr/>
Administrative Services:	
Other administrative expenses	\$ 4,323
Bond premiums	500
Total Administrative Services	<hr/> \$ 4,823 <hr/>
Other Expenditures:	
Unauthorized expenditure*	2,350
Undocumented expenditure	1,168
Total Other Expenditures	<hr/> \$ 3,518 <hr/>
Total Expenditures	<hr/> <hr/> \$ 60,077 <hr/>

* As disclosed in Finding No. 1, subsequent to the audit period, the relief association made an additional unauthorized expenditure of \$1,073.

OLEY FIRE COMPANY RELIEF ASSOCIATION OF OLEY, BERKS COUNTY,
PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Oley Fire Company Relief Association of Oley, Berks County, Pennsylvania Governing Body:

Mr. Gene Langdon
President

Mr. Gary Yoder
Vice President

Ms. Marie Haas
Secretary

Mr. Harry Miller
Treasurer

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

Ms. Shirley M. Moyer
Secretary
Oley Township

Ms. Cynthia Lastauckas
Secretary
Pike 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.