

# COMPLIANCE AUDIT

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## Ottsville Volunteer Fire Company Relief Association of Ottsville, PA Bucks County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

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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. Jeffrey Lauble, President  
Ottsville Volunteer Fire Company  
Relief Association of Ottsville, PA  
Bucks County

We have conducted a compliance audit of the Ottsville Volunteer Fire Company Relief Association of Ottsville, PA (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 findings 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.

We were not able to obtain independent confirmation of a portion of the cash balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2015, the relief association had a cash balance of \$101,276, we were not able to verify a portion of 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, 2013 to December 31, 2015:

- The relief association took appropriate corrective action to address two of the three findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings 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 –  
Unauthorized Expenditures

Finding No. 2 – Untimely Deposit Of State Aid

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.

August 16, 2016



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. 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>
Bedminster Township	Bucks	\$26,945	\$25,520	\$24,164
Nockamixon Township	Bucks	\$28,671	\$28,912*	\$24,567
Tinicum Township	Bucks	\$19,830	\$21,218	\$17,044

\* The 2014 state aid allocation received from Nockamixon Township was not deposited by the relief association until January 21, 2015 as disclosed in Finding No. 2 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:

Ottsville Volunteer Fire Company

OTTSVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF OTTSVILLE, PA  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Insufficient Surety (Fidelity) Bond Coverage

By increasing the Surety (Fidelity) bond coverage to an amount greater than the balance of the relief association's cash assets.

- Inadequate Signatory Authority For The Disbursement Of Funds

By requiring more than one signature on all negotiable instruments.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Unauthorized Expenditure

Although the relief association received reimbursement of \$10,545 from the affiliated fire company for the unauthorized expenditure that was made in the prior audit period, the relief association again expended funds in the current audit period that were not authorized by Act 118 as further disclosed in Finding No. 1 of this report.

OTTSVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF OTTSVILLE, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditure**

Condition: As disclosed in the Status of Prior Findings section of this report, although the relief association received reimbursement from the affiliated fire company for the unauthorized expenditure made in the prior audit period, the relief association again expended \$10,511 towards insurance premiums for a commercial insurance package for the fire company during the current audit period that is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(2) states:

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

- (2) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of the member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

Costs associated with premiums for fire company commercial insurance packages do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected the fact that the aforementioned expenditure was 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.



OTTSVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF OTTSVILLE, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

**Recommendation:** We recommend that the relief association be reimbursed \$10,511 for the unauthorized expenditure and that relief association officials again 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 \$10,511 for the unauthorized expenditure on July 23, 2016.

**Auditor’s Conclusion:** We reviewed documentation verifying that the reimbursement of \$10,511 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

**Finding No. 2 – Untimely Deposit Of State Aid**

**Condition:** The relief association did not deposit the 2014 state aid allocation it received from Nockamixon Township, in the amount of \$28,912, until January 21, 2015. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 23, 2014, who forwarded this state aid to the volunteer firefighters’ relief association on October 16, 2014, which is 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, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited to a relief association account in a timely manner.

**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.

Furthermore, prudent business practices dictate that upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

OTTSVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF OTTSVILLE, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: Relief association officials failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely deposit of all future income received. 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 indicated they will take action to comply with the recommendation.

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

OTTSVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF OTTSVILLE, PA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2015

Cash	\$ 101,276
Fair Value of Investments	<u>242,198</u>
Total Cash and Investments	<u>\$ 343,474</u>

OTTSVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF OTTSVILLE, PA  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:	
Insurance premiums	\$ 33,250
Fire Services:	
Equipment purchased	\$ 52,941
Equipment maintenance	17,107
Training expenses	4,595
Total Fire Services	\$ 74,643
Administrative Services:	
Other administrative expenses	\$ 49
Bond premiums	750
Total Administrative Services	\$ 799
Total Investments Purchased:	\$ 20,000
Other Expenditures:	
Payments on lease-financing	\$ 121,755
Unauthorized expenditure	10,511
Total Other Expenditures	\$ 132,266
Total Expenditures	\$ 260,958

OTTSVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF OTTSVILLE, PA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Ottsville Volunteer Fire Company Relief Association of Ottsville, PA Governing Body:

**Mr. Jeffrey Lauble**  
President

**Mr. Keith Milligan**  
Vice President

**Mr. Carl Bahnck**  
Secretary

**Mr. Alex Poniktera**  
Treasurer

**Mr. Anthony Aravich**  
Trustee

**Mr. David Ramsden**  
Trustee

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

**Ms. Jean L. Herstine**  
Secretary  
Bedminster Township

**Ms. Heather DiSario**  
Secretary  
Nockamixon Township

**Mr. James J. Sabath**  
Secretary  
Tinicum Township

OTTSVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF OTTSVILLE, PA  
REPORT DISTRIBUTION LIST

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