

COMPLIANCE AUDIT

Penn Township Firemen's Relief Association of Penn Township, York County, of the Commonwealth of Pennsylvania

For the Period
January 1, 2012 to December 31, 2015

September 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Dale W. Crabbs, President
Penn Township Firemen's Relief Association of Penn Township,
York County, of the Commonwealth of Pennsylvania

We have conducted a compliance audit of the Penn Township Firemen's Relief Association of Penn Township, York County, of the Commonwealth of 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, 2012 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, 2012 to December 31, 2015:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- Because of the significance of the matters described in the findings below and discussed later in this report, the relief association did not, in all significant respects, receive state aid and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Unsecured Loan

Finding No. 2 – Duplicate Payment

Finding No. 3 – 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.

August 30, 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Penn Township	York	\$45,736	\$40,718	\$38,491	\$30,210

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:

Penn Township Volunteer Emergency Services

PENN TOWNSHIP FIREMEN'S RELIEF ASSOCIATION OF PENN TOWNSHIP,
YORK COUNTY, OF THE COMMONWEALTH OF PENNSYLVANIA
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:

- Undocumented Expenditures

By providing adequate documentation to evidence the propriety of the undocumented expenditures that were made in the prior audit period. However, from the documentation provided, we determined that for one of the undocumented expenditures from the prior audit period, the disbursement was actually a duplicate payment and therefore not authorized because no goods or services were received for the duplicate payment as disclosed in Finding No. 2 contained in this audit report.

PENN TOWNSHIP FIREMEN'S RELIEF ASSOCIATION OF PENN TOWNSHIP,
YORK COUNTY, OF THE COMMONWEALTH OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unsecured Loan

Condition: On December 10, 2015, the relief association made an unsecured loan to Penn Township Volunteer Emergency Services in the amount of \$136,000. The loan is considered unsecured because the two vehicles held as collateral are titled in the name of Parkville Fire Company, which is a closed company that merged into Penn Township Volunteer Emergency Services. In addition, one of the vehicles owned by the fire company has a financial institution listed as the lien holder.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) requires that loans be:

. . . (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

Cause: Relief association officials indicated that they were unaware that the loan to the fire company must be secured to ensure compliance with Act 118 provisions. In addition, relief association officials stated that they were unaware that the titles were still in the name of the former Parkville Fire Company.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials and the fire company amend the written loan agreement to provide adequate security for the relief association's investment as required by Act 118 at 35 Pa.C.S. § 7416(c)(3). If such action is not taken, 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: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

PENN TOWNSHIP FIREMEN'S RELIEF ASSOCIATION OF PENN TOWNSHIP,
YORK COUNTY, OF THE COMMONWEALTH OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Duplicate Payment

Condition: As disclosed in the Status of Prior Finding section, we determined that one of the undocumented expenditures from the prior audit period was actually a duplicate payment. The relief association previously expended \$806 on July 9, 2011 for insurance premiums. On July 27, 2011, the relief association erroneously made a duplicate payment for the same insurance premiums. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices.

Cause: The relief association failed to establish adequate internal control procedures that require all invoices or other billing documents to be canceled or otherwise effectively marked to prevent duplicate payments.

Effect: As a result of this erroneous payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$806 for the erroneous duplicate payment. The relief association officials should consider contacting the vendor to recover the duplicate payment. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association 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.

PENN TOWNSHIP FIREMEN'S RELIEF ASSOCIATION OF PENN TOWNSHIP,
YORK COUNTY, OF THE COMMONWEALTH OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – 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:

- A provision requiring the signature of at least two (2) officers, one of whom shall be the disbursing officer, in order to bind the association by formal contract or to issue any negotiable instrument.
- A provision requiring the approval of all expenditures and purchases/sales of investments by a majority vote at an association meeting.
- Stated procedures to be followed in nominating and in electing relief association officers and trustees. (*Currently, the constitution and bylaws contradict relative to officers' positions*).

In addition, the current Treasurer is not a member or an officer of the relief association. The current treasurer is a contracted employee; however, there is no provision in the bylaws authorizing such a contracted position for the handling of the fiscal responsibilities of the relief association.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(1, 3, 5, 6) 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.
- (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.

PENN TOWNSHIP FIREMEN'S RELIEF ASSOCIATION OF PENN TOWNSHIP,
YORK COUNTY, OF THE COMMONWEALTH OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Relief association officials indicated that they were unaware of the mandatory bylaw provisions established by Act 118, and the inconsistencies present between their constitution and bylaws.

Effect: As a result of the mandatory provisions not being included in the bylaws, and the present inconsistencies between the constitution and 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 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.

PENN TOWNSHIP FIREMEN'S RELIEF ASSOCIATION OF PENN TOWNSHIP,
YORK COUNTY, OF THE COMMONWEALTH OF PENNSYLVANIA
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

PENN TOWNSHIP FIREMEN'S RELIEF ASSOCIATION OF PENN TOWNSHIP,
YORK COUNTY, OF THE COMMONWEALTH OF PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2015

Cash	\$ 182,177
Fair Value of Investments	<u>115,985</u>
Total Cash and Investments	<u>\$ 298,162</u>

PENN TOWNSHIP FIREMEN'S RELIEF ASSOCIATION OF PENN TOWNSHIP,
 YORK COUNTY, OF THE COMMONWEALTH OF PENNSYLVANIA
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:	
Insurance premiums	\$ 31,755
Relief benefits	1,059
Total Benefit Services	\$ 32,814
Fire Services:	
Equipment purchased	\$ 140,919
Equipment maintenance	46,239
Training expenses	6,035
Total Fire Services	\$ 193,193
Administrative Services:	
Other administrative expenses	\$ 16,426
Bond premiums	2,488
Total Administrative Services	\$ 18,914
Total Investments Purchased	\$ 136,000
Total Expenditures	\$ 380,921

PENN TOWNSHIP FIREMEN'S RELIEF ASSOCIATION OF PENN TOWNSHIP,
YORK COUNTY, OF THE COMMONWEALTH OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Penn Township Firemen's Relief Association of Penn Township, York County, of the
Commonwealth of Pennsylvania Governing Body:

Mr. Dale W. Crabbs
President

Mr. Jerry D. Misner, Jr.
Vice President

Ms. Helen T. Weaver
Secretary

Mr. Andy Alwine
Assistant Secretary

Ms. Diane Alwine
Assistant Treasurer

Mr. Ray Kinsey
Trustee

Mr. Scott Sager
Trustee

PENN TOWNSHIP FIREMEN'S RELIEF ASSOCIATION OF PENN TOWNSHIP,
YORK COUNTY, OF THE COMMONWEALTH OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

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

Ms. Kristina J. Rodgers
Secretary
Penn 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.