

COMPLIANCE AUDIT

The Pleasant Hill Volunteer Firemen's Relief Association of West Manheim Township, York County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

April 2018



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



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
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www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Michael Hampton, President
The Pleasant Hill Volunteer Firemen's
Relief Association of West Manheim
Township, York County, Pennsylvania

We have conducted a compliance audit of the Pleasant Hill Volunteer Firemen's Relief Association of West Manheim Township, York 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 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.

We were not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided copies of bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

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 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 – Unsecured Loan And Inadequate Administration Of Loan

Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

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 9, 2018



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Finding	3
Findings and Recommendations:	
Finding No. 1 – Unsecured Loan And Inadequate Administration Of Loan	4
Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased Equipment	5
Supplementary Financial Information	7
Report Distribution List	9

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>
Manheim Township	York	\$12,684	\$12,604
West Manheim Township	York	\$56,537	\$56,449

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:

Pleasant Hill Volunteer Fire Company

THE PLEASANT HILL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
WEST MANHEIM TOWNSHIP, YORK COUNTY, 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:

- 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.

THE PLEASANT HILL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
WEST MANHEIM TOWNSHIP, YORK COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unsecured Loan And Inadequate Administration Of Loan

Condition: On November 2, 2015, the relief association made an unsecured loan to the affiliated fire company in the amount of \$59,105. The loan was inappropriately collateralized by a building mounted generator and power switch with an estimated and unsubstantiated value. In addition, we detected the following material internal control weaknesses related to the administration of this loan:

- A separate cash receipts journal was not maintained to record loan payments received.
- Payments received were not accurately applied to loan accounts.
- Amortization schedules and outstanding account balances were not revised to reflect interest due on late payments and/or payments made in advance.

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 affiliated fire company must be secured to ensure compliance with Act 118 provisions.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk.

Recommendation: We recommend that the relief association officials and the affiliated 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). We also recommend that the relief association officials adopt the following internal controls related to the loan:

- Revise amortization schedules to reflect payments that vary from original schedules.
- Aggressively pursue all delinquent loan payments.

If such actions are 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.

THE PLEASANT HILL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
WEST MANHEIM TOWNSHIP, YORK COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: Relief association management did not agree with the finding as presented at the audit exit conference and stated that the relief officials would meet to discuss the finding. As a result of our audit, the affiliated fire company paid off the unsecured loan from the relief association with the final payment received on February 27, 2018.

Auditor's Conclusion: We reviewed documentation verifying that the loan was satisfied on February 27, 2018. Compliance for any future loans will be subject to verification through our next audit.

Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Condition: On November 2, 2015, the relief association expended \$47,396 on equipment for a fire company owned vehicle without properly securing its ownership interest. Additionally, on May 13, 2016, the relief association expended \$7,609 on equipment for another fire company owned vehicle without properly securing its ownership interest.

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.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the vehicles that have equipment purchased by the relief association by executing a formal written agreement that enumerates the relief association's proportional share of the cost of the vehicles. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicles, in the event the vehicles are ever sold.

Cause: Relief association officials failed to adequately secure its proportional ownership interest in the vehicles for which the relief association purchased equipment.

Effect: The failure to adequately secure the proportional share of ownership interest in the vehicles for which relief association purchased equipment was installed places the relief association's ownership interest at greater risk.

THE PLEASANT HILL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
WEST MANHEIM TOWNSHIP, YORK COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials execute formal written agreements with the fire company that enumerates the relief association's proportional ownership interest in the vehicles as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicles are ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$55,005. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management did not agree with the original finding as presented at the audit exit conference and stated that the relief officials would meet to discuss the finding. After discussion, on April 2, 2018, the relief association officials provided two formal written agreements with the affiliated fire company.

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

THE PLEASANT HILL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
WEST MANHEIM TOWNSHIP, YORK COUNTY, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2016

Cash	\$ 118,187
Fair Value of Investments	<u>40,553</u>
Total Cash and Investments	<u><u>\$ 158,740</u></u>

THE PLEASANT HILL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
 WEST MANHEIM TOWNSHIP, YORK COUNTY, PENNSYLVANIA
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:

Insurance premiums	\$ 4,152
Relief benefits	2,221
Total Benefit Services	\$ 6,373

Fire Services:

Equipment purchased	\$ 195,409
Equipment maintenance	15,122
Training expenses	1,515
Fire prevention materials	72
Total Fire Services	\$ 212,118

Administrative Services:

Other administrative expenses	\$ 6,537
Bond premiums	536
Total Administrative Services	\$ 7,073

Total Expenditures	\$ 225,564
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THE PLEASANT HILL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
WEST MANHEIM TOWNSHIP, YORK COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Pleasant Hill Volunteer Firemen's Relief Association of West Manheim Township, York
County, Pennsylvania Governing Body:

Mr. Michael Hampton
President

Ms. Tammy Fields
Vice President

Ms. Virginia Clouser
Secretary

Ms. Abbey Hampton
Treasurer

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

Ms. Michelle E. Hershey
Secretary
Manheim Township

Ms. Miriam Clapper
Secretary
West Manheim 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