

COMPLIANCE AUDIT

Revloc Volunteer Firemen's Relief Association of Revloc, Pa. Cambria County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

October 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 MacLaughlin, President
Revloc Volunteer Firemen's Relief Association
of Revloc, Pa.
Cambria County

We have conducted a compliance audit of the Revloc Volunteer Firemen's Relief Association of Revloc, 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 35Pa.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.

Based on our audit procedures, we conclude that, for the period January 1, 2013 to December 31, 2015:

- The relief association took appropriate corrective action to address one of the two 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 - Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Undocumented Expenditures

Finding No. 3 – Failure To Deposit 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 response has 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.

October 11, 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 35Pa.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>2013</u>	<u>2014</u>	<u>2015</u>
Cambria Township	Cambria	\$13,392	\$12,685*	\$12,165

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:

Revloc Volunteer Fire Company

* The relief association failed to deposit \$2,200 of the \$12,685 of state aid received from Cambria Township in to a relief association bank account as further described in Finding No. 3 in this report.

REVLOC VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF REVLOC, PA.
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Unauthorized Expenditure

By receiving reimbursement of \$970 from the affiliated fire company for the unauthorized expenditure made in the prior audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure To Maintain A Complete And Accurate Equipment Roster

REVLOC VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF REVLOC, PA.
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain
A Complete And Accurate Equipment Roster**

Condition: As disclosed in the prior audit report, the relief association did not maintain a complete and accurate roster of equipment owned by the relief association. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all equipment owned by the relief association. A similar condition occurred during the current audit period.

Criteria: As previously disclosed, prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The continued failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

REVLOC VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF REVLOC, PA.
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. 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.2 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following disbursements made during the current audit period:

<u>Date</u>	<u>Method</u>	<u>Payee Description</u>	<u>Amount</u>
05-09-14	Debit	Fire Company's General Fund	\$ 2,471
08-26-14	Debit	Fire Company's General Fund	2,108
Total			<u>\$ 4,579</u>

Criteria: Act 118 at 35Pa.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.

REVLOC VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF REVLOC, PA.
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Without adequate supporting documentation, such as an invoice, this department is unable to determine whether relief association funds were disbursed 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: The relief association frequently transfers funds from the relief association's savings account to the relief association's checking account to pay authorized expenditures of the relief association. However, for the aforementioned disbursements, these funds were transferred to the fire company's checking account without adequate supporting documentation. Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures and/or disbursements.

Effect: Lack of supporting documentation, such as invoices and detailed minutes of meetings, made it impossible to determine if the disbursements were made in accordance with Act 118 at 35Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association disbursements 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 invoices, to ensure the propriety of the disbursements or that the relief association be reimbursed \$4,579 for the undocumented distributions. We also recommend that the relief association officials maintain supporting documentation for all future expenditures and/or distributions. 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 \$6,779 for the undocumented disbursements and state aid deposit error described in Finding No. 3 on August 24, 2016.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$6,779 was received. Continued compliance will be subject to verification through our next audit

REVLOC VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF REVLOC, PA.
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Deposit State Aid

Condition: The relief association did not deposit \$2,200 of the \$12,685 state aid distributed by Cambria Township during 2014 into a relief association account. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 23, 2014, who forwarded this state aid to the relief association on October 17, 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, the relief association allocated \$2,200 into the fire company's checking account instead of a relief association account.

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 practice dictates that, upon receipt of its state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

Cause: Relief association officials failed to establish internal control procedures to ensure that all state aid received is deposited into a relief association account.

Effect: As a result of the state aid not being deposited, the relief association was unable to use the funds for general operating expenses or for investment purposes. In addition, the failure to deposit receipts in a timely manner can lead to a greater risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials immediately deposit the \$2,200 state aid allocation it received from the township. In addition, relief association officials should establish accounting and internal control procedures to ensure that all state aid is received in a timely manner and deposited into a relief association account. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

REVLOC VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF REVLOC, PA.
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 \$6,779 for the undocumented distribution and state aid deposit error on August 24, 2016.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$6,779 was received. Continued compliance will be subject to verification through our next audit.

REVLOC VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF REVLOC, PA.
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2015

Cash	<u>\$ 13,749</u>
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REVLOC VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF REVLOC, PA.
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:	
Insurance premiums	\$ 10,118
Fire Services:	
Equipment purchased	\$ 1,685
Equipment maintenance	1,634
Training expenses	824
Total Fire Services	\$ 4,143
Administrative Services:	
Bond premiums	\$ 760
Other Expenditures:	
Payments on loan	\$ 16,707
Undocumented expenditures	4,579
Total Other Expenditures	\$ 21,286
Total Expenditures	\$ 36,307

REVLOC VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF REVLOC, PA.
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Revloc Volunteer Firemen's Relief Association of Revloc, Pa. Governing Body:

Mr. Mark MacLaughlin
President

Mr. Jamie Walker
Vice President

Ms. Lois Banfield
Secretary

Ms. Jane E. Goshey
Treasurer

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

Ms. Susan M. Mazenko
Secretary
Cambria 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.