

COMPLIANCE AUDIT

Volunteer Fireman's Relief Association of Rush Township, Dauphin County, PA

For the Period
January 1, 2014 to December 31, 2016

December 2017



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
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Anthony Shutt, President
Volunteer Fireman's Relief Association
Of Rush Township, Dauphin County, PA
Dauphin County

We have conducted a compliance audit of the Volunteer Fireman's Relief Association Of Rush Township, Dauphin County, 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, 2014 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.

Based on our audit procedures, we conclude that, 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, comply 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, collectively as a whole, for the period January 1, 2014 to December 31, 2016. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

- Finding No. 1 – Undocumented Expenditures
- Finding No. 2 – Failure To Adhere To Relief Association Bylaws
- Finding No. 3 – Failure To Maintain Surety (Fidelity) Bond Coverage
- Finding No. 4 – Failure To Maintain Minutes Of Meetings
- Finding No. 5 – Failure To Maintain A Complete And Accurate Equipment Roster
- Finding No. 6 – Failure To Maintain A Complete And Accurate Membership Roster

The six findings contained in this report cite conditions that existed in the operation of the relief association during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report. Furthermore, refer to the Background Section of this report for additional pertinent information regarding the operations of 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 official for the cooperation extended to us during the conduct of the audit.

December 15, 2017



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Findings and Recommendations:	
Finding No. 1 – Undocumented Expenditures	4
Finding No. 2 – Failure To Adhere To Relief Association Bylaws	5
Finding No. 3 – Failure To Maintain Surety (Fidelity) Bond Coverage.....	7
Finding No. 4 – Failure To Maintain Minutes Of Meetings	8
Finding No. 5 – Failure To Maintain A Complete And Accurate Equipment Roster.....	8
Finding No. 6 – Failure To Maintain A Complete And Accurate Membership Roster	10
Potential Withhold of State Aid.....	11
Supplementary Financial Information	12
Report Distribution List	14

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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Rush Township	Dauphin	\$1,372	*	*

* During the current audit period, the relief association did not receive allocations of state aid from Rush Township in 2015 and 2016. The municipality has sole discretion to distribute the annual allocation of state aid received to any relief association providing fire service to the municipality.

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:

West End Fire Company #3 Sheridan

As stated above, beginning 2015, the funding municipality, Rush Township, discontinued allocating state aid to the relief association. Although a current relief association official has indicated a desire to continue operation of the relief association, the township indicated that it no longer desires to continue funding the affiliated fire company of this relief association. Since the relief association has not provided us with an active membership roster, we were unable to determine at the time of this audit whether the relief association is required to dissolve under Act 118.

Act 118 at § 7419 requires the following:

- a) Withdrawal.--If the voters elect to replace a volunteer fire company with a full-paid fire department or company and the volunteer company which has been replaced ceases to render fire service to any community, the volunteer company shall withdraw from the volunteer firefighters’ relief association which had extended protection to its membership.
- (b) Continuation.--Notwithstanding withdrawal of a company under subsection (a), the volunteer firefighters’ relief association shall continue granting financial assistance to its remaining members and their families in death, sickness and distress suffered through the unfortunate elements of life.
- (c) New members prohibited.--A volunteer firefighters’ relief association continuing under subsection (b) shall not receive any new members.
- (d) Application.--When the membership of a relief association functioning under subsection (b) diminishes to five members, the association shall apply to the local common pleas court for dissolution. (Emphasis added.)

BACKGROUND – (Continued)

We recommend that relief officials provide this department with a roster of active membership (See Finding No. 6) and determine whether the relief association is required to dissolve in accordance with Act 118 and take the necessary steps to properly resolve this situation.

Prudent business practice dictates that relief associations contemplating dissolution should consider retaining legal counsel to provide assurance that the dissolution complies with applicable laws and regulations governing non-profit charitable organizations and that all benefits owed to active and former association members are maintained and protected. In addition, if this is the case, the remaining relief association members should conduct a meeting to approve the dissolution of the association and the disposition of its assets. In most circumstances, all relief association-owned equipment and monetary assets of the dissolving relief association are to be transferred to a new relief association affiliated with the volunteer fire company or a fire company that services Rush Township. In addition, relief association officials should contact this department in preparation of a final audit of the relief association and perform the following:

- The relief association should provide full documentation of the monetary assets and equipment being transferred. A complete inventory of all equipment should be performed and a listing of the equipment transferred should be completed.
- Upon transfer of the equipment, a signed receipt from the relief association receiving the equipment should be obtained to verify items of equipment transferred. Those items of equipment then become assets to the recipient relief association and should be added to that relief association's equipment roster.

The department will verify the receipt of the equipment and monetary assets transferred through an audit of the recipient association. However, as of the date of this report, the relief association has not made a formal commitment to dissolve. Based upon any subsequent action taken by the relief association to address the findings noted in this audit report and the operational matters discussed in this Background Section of the audit report, a determination will be made as to whether any future audits of this relief association are warranted.

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF RUSH TOWNSHIP,
 DAUPHIN COUNTY, PA
 FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

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

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
08/07/14	132	Equipment vendor	\$ 2,000
01/23/15	134	Equipment vendor	2,316
08/14/15	136	Individual, for personal safety equipment	600
10/13/15	137	Individual, for CPR training	360
05/21/16	102	Equipment vendor	13
07/07/16	103	Equipment vendor	350
Total			<u>\$ 5,639</u>

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 invoices and detailed minutes of meetings, made it impossible to determine if the expenditures were 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. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF RUSH TOWNSHIP,
DAUPHIN COUNTY, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the expenditures or that the relief association be reimbursed \$5,639 for the undocumented expenditures. 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: 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.

Finding No. 2 – Failure To Adhere To Relief Association Bylaws

Condition: The relief association did not adhere to numerous provisions in the association's bylaws. Specifically the relief association did not abide by the following bylaw stipulations:

- The relief association only has one officer occupying the position of president.
- Two signatures are required and were observed on their cancelled checks; however, the relief association only has one officer.
- The relief association must have a Surety (Fidelity) bond on the disbursing officer (treasurer); however, the policy was not renewed and the treasurer position is vacant.

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF RUSH TOWNSHIP,
DAUPHIN COUNTY, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: The relief association's bylaws stipulate the following:

- Article III – Officers, Section I – The officers of this association shall consist of a president, vice president, secretary, treasurer, and three (3) trustees.
- Article VIII – Miscellaneous, Section I – The signatures of at least two officers, one of which shall be the treasurer, shall be required for the issuance of relief association checks, withdrawal from the association savings account, the redemption of any relief association investment or on any other negotiable document by the association.
- Article VIII – Miscellaneous, Section II: The association shall maintain an officer's bond on the treasurer.

Furthermore, prudent business practices dictate that the relief association should adhere to all provisions stipulated in the relief association's bylaws to ensure that the relief association conducts its affairs with proper authorization.

Cause: The relief association official indicated that they were unaware of the bylaw guidelines established by the relief association.

Effect: As a result of the relief association not following the mandatory provisions stipulated in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials review the bylaws governing their organization and establish guidelines and procedures to meet the provisions contained in the bylaws in order to assure that the association conducts its affairs with proper authorization. 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.

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF RUSH TOWNSHIP,
DAUPHIN COUNTY, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. The relief association's Surety (Fidelity) bond coverage expired on November 11, 2016. As of December 31, 2016, the relief association's cash assets totaled \$112.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: Relief association officials indicated that they were aware of the Act 118 provision requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer; however, the relief association president did not think it was necessary to renew the bond policy with a premium of \$100 when their cash assets dropped to \$112 on July 29, 2016.

Effect: As a result of the authorized disbursing officer of the relief association not being bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials obtain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by Act 118. 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.

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF RUSH TOWNSHIP,
DAUPHIN COUNTY, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure To Maintain Minutes Of Meetings

Condition: The relief association did not maintain minutes of meetings as required by Act 118 and the relief association's bylaws.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

... must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, the relief association bylaws at Article III, Section III state, in part:

The secretary shall keep a true record of all meetings in the minutes.

Cause: Relief association officials indicated that they were unaware that maintaining minutes of meetings was required by Act 118 and the relief association's bylaws.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend that the relief association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record of all financial-related business conducted by 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.

Finding No. 5 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: 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.

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF RUSH TOWNSHIP,
DAUPHIN COUNTY, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Criteria: 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: Relief association officials 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 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.

Recommendation: We 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.

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF RUSH TOWNSHIP,
DAUPHIN COUNTY, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – Failure To Maintain A Complete And Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members' mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials indicated that they were unaware that they should maintain a comprehensive roster of relief association members.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF RUSH TOWNSHIP,
DAUPHIN COUNTY, PA
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.

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF RUSH TOWNSHIP,
DAUPHIN COUNTY, PA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2016

Cash	\$	<u>112</u>
------	----	------------

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF RUSH TOWNSHIP,
 DAUPHIN COUNTY, PA
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2016

Expenditures:

Fire Services:

Equipment purchased	\$ 2,605
Equipment maintenance	<u>2,221</u>
Total Fire Services	<u>\$ 4,826</u>

Administrative Services:

Bond premiums	<u>\$ 200</u>
---------------	---------------

Other Expenditures:

Undocumented expenditures	<u>\$ 5,639</u>
---------------------------	-----------------

Total Expenditures	<u><u>\$ 10,665</u></u>
--------------------	-------------------------

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF RUSH TOWNSHIP,
DAUPHIN COUNTY, PA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Volunteer Fireman's Relief Association Of Rush Township, Dauphin County, PA Governing
Body:

Mr. Anthony Shutt
President

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

Ms. Katie Brennan
Secretary
Rush 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.