

COMPLIANCE AUDIT

Sandy Lake Volunteer Fire and Rescue Relief Association

Mercer County, Pennsylvania

For the Period

January 1, 2013 to December 31, 2015

September 2016



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. Thomas Irwin, President
Sandy Lake Volunteer Fire
and Rescue Relief Association
Mercer County

We have conducted a compliance audit of the Sandy Lake Volunteer Fire and Rescue Relief Association (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 objective of the audit was 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 objective 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 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, receive state aid and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures for the period January 1, 2013 to December 31, 2015. Therefore, the relief association may be subject to the total withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Unauthorized Expenditure

Finding No. 3 – Insufficient Surety(Fidelity) Bond Coverage

Finding No. 4 Failure To Maintain A Complete And Accurate Equipment Roster

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

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Background | 1 |
| Findings and Recommendations: | |
| Finding No. 1 – Undocumented Expenditures | 3 |
| Finding No. 2 – Unauthorized Expenditure | 4 |
| Finding No. 3 – Insufficient Surety (Fidelity) Bond Coverage..... | 5 |
| Finding No. 4 – Failure To Maintain A Complete And Accurate Equipment Roster..... | 7 |
| Potential Withhold of State Aid..... | 9 |
| Supplementary Financial Information | 10 |
| Report Distribution List | 12 |

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> |
|---------------------|---------------|-------------|-------------|-------------|
| Mill Creek Township | Mercer | \$2,287 | \$1,092 | \$4,239 |
| New Lebanon Borough | Mercer | \$ 946 | \$ 896 | \$ 842 |
| Sandy Lake Borough | Mercer | \$3,799 | \$3,599 | \$3,433 |
| Sandy Lake Township | Mercer | \$3,718 | \$3,521 | \$3,432 |
| Worth Township | Mercer | \$2,708 | \$2,566 | \$2,400 |

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:

Sandy Lake Volunteer Fire and Rescue Company

SANDY LAKE VOLUNTEER FIRE AND RESCUE RELIEF ASSOCIATION
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> |
|-------------|------------------|------------------------------|-----------------|
| 01/16/13 | 1520 | Maintenance service provider | \$ 679 |
| 01/29/13 | 1522 | Maintenance service provider | 108 |
| 02/28/13 | 1524 | Equipment provider | 800 |
| 03/06/13 | 1525 | Training provider | 16 |
| 03/14/13 | 1526 | Maintenance service provider | 333 |
| 04/02/13 | 1527 | Equipment provider | 7 |
| 04/02/13 | 1529 | Maintenance service provider | 102 |
| 04/06/13 | 1531 | Training provider | 8 |
| 04/27/13 | 1532 | Training provider | 20 |
| 04/27/13 | 1533 | Training provider | 50 |
| 05/06/13 | 1534 | Maintenance service provider | 685 |
| 05/23/13 | 1536 | Training provider | 50 |
| 09/01/13 | 1548 | Training provider | 51 |
| 11/03/13 | 1555 | Office supplies vender | 77 |
| 12/31/13 | 1562 | Training provider | 77 |
| 05/06/14 | 1576 | Training provider | 82 |
| 11/24/14 | 1592 | Equipment provider | 500 |
| 12/23/14 | 1595 | Equipment provider | 550 |
| 12/02/15 | 1615 | Equipment provider | 875 |
| Total | | | <u>\$ 5,070</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.

SANDY LAKE VOLUNTEER FIRE AND RESCUE RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

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 \$5,070 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 – Unauthorized Expenditure

Condition: The relief association expended \$799 for fundraising supplies for the affiliated fire company during the current audit period which is not authorized by Act 118.

SANDY LAKE VOLUNTEER FIRE AND RESCUE RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1) states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

The cost associated with purchasing fund raising supplies for the fire company does not qualify as an authorized volunteer firefighters’ relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the expenditure for the fire company’s fund raising supplies 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.

Recommendation: We recommend that the relief association be reimbursed \$799 for the unauthorized expenditure and that relief association officials 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 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. 3 – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association’s authorized disbursing officer. The relief association’s Surety (Fidelity) bond coverage amount was \$50,000; however, as of December 31, 2015, the relief association’s cash assets totaled \$71,159.

SANDY LAKE VOLUNTEER FIRE AND RESCUE RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 failed to monitor the relief association’s cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association’s authorized disbursing officer was in compliance with Act 118 provisions.

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

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association’s authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association’s authorized disbursing officer to an amount greater than the expected maximum balance of the relief association’s cash assets, or by decreasing the relief association’s cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association’s cash balance to ensure that unexpected events affecting the relief association’s current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association’s authorized disbursing officer. 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 audit, subsequent to the period under review on March 11, 2016, the relief association decreased their cash assets to a level below the current policy coverage amount.

Auditor’s Conclusion: We reviewed documentation verifying that the relief association’s total cash balance was below the policy coverage amount. Continued compliance with maintaining appropriate bond coverage will be subject to verification through our next audit.

SANDY LAKE VOLUNTEER FIRE AND RESCUE RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit period, this listing was incomplete and did not accurately identify all of the equipment owned by the relief association. The relief association purchased \$4,885 of equipment during the current audit period; however, equipment amounting to \$2,065 of these purchases was not properly accounted for on the relief association's equipment roster. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

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.

SANDY LAKE VOLUNTEER FIRE AND RESCUE RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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.

SANDY LAKE VOLUNTEER FIRE AND RESCUE RELIEF ASSOCIATION
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.

SANDY LAKE VOLUNTEER FIRE AND RESCUE RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2015

| | |
|------|------------------|
| Cash | <u>\$ 71,159</u> |
|------|------------------|

SANDY LAKE VOLUNTEER FIRE AND RESCUE RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES

Expenditures:

Benefit Services:

| | |
|---------------------------------|-----------|
| Insurance premiums | \$ 11,102 |
| Tokens of sympathy and goodwill | 307 |
| Total Benefit Services | \$ 11,409 |

Fire Services:

| | |
|-----------------------|-----------|
| Equipment purchased | \$ 2,153 |
| Equipment maintenance | 16,255 |
| Training expenses | 3,257 |
| Total Fire Services | \$ 21,665 |

Administrative Services:

| | |
|-------------------------------|--------|
| Other administrative expenses | \$ 625 |
| Bond premiums | 100 |
| Total Administrative Services | \$ 725 |

Other Expenditures:

| | |
|---------------------------|----------|
| Undocumented expenditures | \$ 5,070 |
| Unauthorized expenditure | 799 |
| Total Other Expenditures | \$ 5,869 |

| | |
|--------------------|-----------|
| Total Expenditures | \$ 39,668 |
|--------------------|-----------|

SANDY LAKE VOLUNTEER FIRE AND RESCUE RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Sandy Lake Volunteer Fire and Rescue Relief Association Governing Body:

Mr. Thomas Irwin
President

Ms. Jolene Parker
Secretary

Ms. Denice Smith
Treasurer

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

Ms. Lorraine M. Roberts
Secretary
Mill Creek Township

Ms. Darlene S. Slemenda
Secretary
New Lebanon Borough

Ms. Cindy Troy
Secretary
Sandy Lake Borough

Ms. Heather K. Bacher
Secretary
Sandy Lake Township

Mr. Dale Furey
Secretary
Worth Township

SANDY LAKE VOLUNTEER FIRE AND RESCUE RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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.