

# COMPLIANCE AUDIT

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## Snow Shoe Firemen's Relief Association of Snow Shoe, PA Centre County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

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November 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Ray Kline, President  
Snow Shoe Firemen's Relief Association  
of Snow Shoe, PA  
Centre County

We have conducted a compliance audit of the Snow Shoe Firemen's Relief Association of Snow Shoe, 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, 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 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, 2013 to December 31, 2015:

- The relief association took appropriate corrective action to address the finding contained in our prior audit 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 – Untimely Deposit Of State Aid

Finding No. 2 – Undocumented And Unauthorized Expenditures

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.

November 21, 2016



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background .....	1
Status of Prior Finding .....	3
Findings and Recommendations:	
Finding No. 1 – Untimely Deposit Of State Aid .....	4
Finding No. 2 – Undocumented And Unauthorized Expenditures .....	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. 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>
Snow Shoe Borough	Centre	\$ 4,120	\$ 3,922*	\$ 3,821
Snow Shoe Township	Centre	\$12,589	\$11,860	\$11,080

\* The 2014 state aid allocation received from Snow Shoe Borough was not deposited by the relief association until September 23, 2016, as disclosed in Finding No. 1 in this report.

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:

Snow Shoe Fire Company

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA  
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:

- Failure To Define Discretionary Benefits

By discontinuing the payment of discretionary benefits not authorized in the relief association's bylaws.

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Untimely Deposit Of State Aid**

Condition: The relief association did not deposit the 2014 state aid allocation it received from Snow Shoe Borough, in the amount of \$3,922, until September 23, 2016. The foreign fire insurance tax allocation was distributed to the municipal treasurer, who forwarded this state aid to the relief association on September 20, 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 of the state aid allocation, the relief association did not ensure the funds were deposited into a relief association account in a timely manner.

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 practices dictate that upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: Relief association officials failed to establish internal control procedures which require that all income received be recorded and deposited into a relief association account timely. The 2014 allocation from Snow Shoe Borough was inadvertently deposited into a fire company account instead of a relief association account.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. 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 subsequent to the period, on September 23, 2016, the relief association received the state aid from the affiliated fire company and deposited \$3,922 into the relief association account.



SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Auditor's Conclusion: We reviewed the documentation verifying the deposit of the state aid from the affiliated fire company in the amount of \$3,922 into the relief association account. Compliance for receipt and timely deposit of state aid during the next audit period will be subject to verification through our next audit.

**Finding No. 2 – Undocumented And Unauthorized 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>
07/03/13	789	Credit card vendor	\$ 1,573
07/09/13	790	Training vendor	100
08/12/13	791	Retail vendor	721
04/02/14	804	Individual member	70
Total			<u>\$ 2,464</u>

In addition, when additional documentation was supplied for an expenditure originally classified as an undocumented expenditure amounting to \$420, it was determined that portions of the expenditure related to repairs to apparatuses/pumps owned by the affiliated fire company which are not authorized according to Act 118. Moreover, the relief association also paid sales tax amounting to \$23 during the audit period which is also deemed unauthorized.

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.

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2015

**Finding No. 2 – (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. Prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions. In addition, the costs associated with the repairs to fire company owned apparatuses/pumps and the payment of state sales tax do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures. In addition, officials were unaware that the aforementioned expenditures were not authorized by Act 118.

Effect: Lack of supporting documentation, such as an invoice, makes expenditure validation and authenticity less determinable for propriety 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. Finally, as a result of the improper expenditures, 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 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 \$2,464 for the undocumented expenditures. We also recommend that the relief association be reimbursed \$443 for the unauthorized expenditures. Finally, we recommend that the 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 and 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$2,464 for the undocumented expenditures and \$23 towards the unauthorized expenditures on October 24, 2016. However, the remaining balance of \$420 for the unauthorized expenditures remains outstanding as of the date of this report.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$2,464 was received. However, since the remaining balance of \$420 for the unauthorized expenditures remains outstanding as of the date of this report, we recommend that the relief association be reimbursed that amount. Compliance will be subject to verification through our next audit.

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2015

Cash	\$ 15,114
Fair Value of Investments	<u>21,974</u>
Total Cash and Investments	<u>\$ 37,088</u>

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:

Insurance premiums	<u>\$ 10,248</u>
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Fire Services:

Equipment purchased	\$ 60,349
Equipment maintenance	5,158
Training expenses	1,470
Fire prevention materials	<u>1,316</u>
Total Fire Services	<u>\$ 68,293</u>

Administrative Services:

Officer compensation	<u>\$ 661</u>
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Other Expenditures:

Miscellaneous-deposit error correction	\$ 2,744
Undocumented expenditures	2,464
Unauthorized expenditures	<u>443</u>
Total Other Expenditures	<u>\$ 5,651</u>

Total Expenditures	<u><u>\$ 84,853</u></u>
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SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Snow Shoe Firemen's Relief Association of Snow Shoe, PA Governing Body:

**Mr. Ray Kline**  
President

**Ms. Norma Soster**  
Treasurer

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

**Ms. Karen Basalla**  
Secretary  
Snow Shoe Borough

**Ms. Tara L. Guenot**  
Secretary  
Snow Shoe Township

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).