

# COMPLIANCE AUDIT

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## Winburne Volunteer Fireman's Relief Association at Winburne, Clearfield County, Pennsylvania

For the Period  
January 1, 2014 to December 31, 2015

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September 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. William R. Gaines, President  
Winburne Volunteer Fireman's Relief Association at Winburne,  
Clearfield County, Pennsylvania

We have conducted a compliance audit of the Winburne Volunteer Fireman's Relief Association at Winburne, Clearfield 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, 2014 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.

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, for the period January 1, 2014 to December 31, 2015:

- Except for the effects, if any, of the matter described in the preceding paragraph, the relief association took appropriate corrective action to address the finding contained in our prior audit report.
- 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. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Failure To Deposit Proceeds From Investments Sold

Finding No. 2 – Undocumented Expenditures

Finding No. 3 – 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.

August 26, 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 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2014</u>	<u>2015</u>
Cooper Township	Clearfield	\$6,889	\$6,499

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:

Winburne Volunteer Fire Company # 1

WINBURNE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION AT WINBURNE,  
CLEARFIELD COUNTY, PENNSYLVANIA  
STATUS OF PRIOR AUDIT FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Failure To Maintain A Complete and Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

WINBURNE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION AT WINBURNE,  
CLEARFIELD COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Deposit Proceeds from Investments Sold**

Condition: In 2015, proceeds from the sale of investments owned by the relief association in the amount of \$21,855 were erroneously deposited into the fire company's bank account. Although the fire company transferred \$5,000 on August 13, 2015 and again on August 18, 2015, respectively, into the cash account of the relief association, proceeds in the amount of \$11,855 remain outstanding.

Criteria: Prudent business practice dictates that the relief association should closely monitor all investments sold and ensure all proceeds from such sale are received and timely deposited into a relief association account.

Cause: Relief association officials failed to establish internal control procedures to ensure that all proceeds resulting from the sale of investments are received and timely deposited into a relief association account.

Effect: The failure to deposit proceeds from the sale of relief association investments can lead to a greater risk that funds could be lost or misappropriated. As a result of the proceeds from the investments sold being deposited into a fire company account, the relief association was unable to use the funds to purchase replacement equipment, for general operating expenses, or for investment purposes. 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 be reimbursed the remaining \$11,855 from the erroneous deposit. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all future proceeds resulting from the sale of relief association assets are timely deposited in a relief association account. 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.



WINBURNE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION AT WINBURNE,  
CLEARFIELD COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – 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>
03/02/15	EFT	Winburne Volunteer Fire Company # 1	\$ 729
06/11/15	EFT	Winburne Volunteer Fire Company # 1	3,000
11/18/15	EFT	Winburne Volunteer Fire Company # 1	2,500
Total			<u>\$ 6,229</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.

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 \$6,229 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.

WINBURNE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION AT WINBURNE,  
CLEARFIELD COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (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: 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. 3– Unauthorized Expenditures**

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
03/03/15	117	Fire company commercial insurance	\$ 2,210
06/29/15	125	Repairs to fire company owned vehicle	366
		Total	<u>\$ 2,576</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1,11) 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.
- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

Costs associated with the purchase of commercial insurance for the fire company and repairs to fire company owned vehicles do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

WINBURNE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION AT WINBURNE,  
CLEARFIELD COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118. 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 be reimbursed \$2,576 for the unauthorized expenditures 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: 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.

WINBURNE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION AT WINBURNE,  
CLEARFIELD COUNTY, PENNSYLVANIA  
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 1, 2 and 3 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are 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.

WINBURNE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION AT WINBURNE,  
CLEARFIELD COUNTY, PENNSYLVANIA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH BALANCE  
AS OF DECEMBER 31, 2015

Cash	<u>\$ 6,885</u>
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WINBURNE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION AT WINBURNE,  
 CLEARFIELD COUNTY, PENNSYLVANIA  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:	
Insurance premiums	<u>\$ 1,149</u>
Fire Services:	
Equipment purchased	\$ 11,635
Equipment maintenance	6,058
Training expenses	<u>966</u>
Total Fire Services	<u>\$ 18,659</u>
Administrative Services:	
Other administrative expenses	\$ 124
Bond premiums	<u>200</u>
Total Administrative Services	<u>\$ 324</u>
Other Expenditures:	
Undocumented expenditures	\$ 6,229
Unauthorized expenditures	<u>2,576</u>
Total Other Expenditures	<u>\$ 8,805</u>
 Total Expenditures	 <u><u>\$ 28,937</u></u>

WINBURNE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION AT WINBURNE,  
CLEARFIELD COUNTY, PENNSYLVANIA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Winburne Volunteer Fireman's Relief Association at Winburne, Clearfield County, Pennsylvania  
Governing Body:

**Mr. William R. Gaines**  
President

**Mr. Bobby J. Dunlap**  
Vice President

**Ms. Sarah Y. Dunlap**  
Treasurer

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

**Ms. Kathryn J. Roberts**  
Secretary  
Cooper 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).