



**FRANKLIN TOWNSHIP VOLUNTEER FIREMAN'S  
RELIEF ASSOCIATION**

**BRADFORD COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008 TO DECEMBER 31, 2011**

**RELEASED MARCH 2014**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**





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**AUDITOR GENERAL**

Mr. Josh Swain, President  
FRANKLIN TOWNSHIP VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Bradford County

We have conducted a compliance audit of the Franklin Township Volunteer Firefighters' 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, 2008 to December 31, 2011.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was to determine if the volunteer firefighters' 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.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Franklin Township Volunteer Firefighters' 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. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Franklin Township Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Franklin Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objective.

The results of our audit, for the period January 1, 2008 to December 31, 2011, found the Franklin Township Volunteer Firefighters' 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 as noted in the findings listed below and discussed later in this report. Therefore, the Franklin Township Volunteer Firefighters' Relief Association will be subject to the potential withhold of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report. The results of our tests also indicated the Franklin Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$8,966 and no investments.

Finding No. 1 – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 2 – Failure to Secure Ownership of Vehicle

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

Furthermore, a scope limitation on our audit exists, as detailed in the Observation section of this report.

The contents of this report were discussed with the management of the Franklin Township Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

October 3, 2013

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

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 Franklin Township Volunteer Fireman's Relief Association, herein referred to as Franklin Township Volunteer Firefighters' 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 the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' 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 volunteer firefighters' 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, which is or are recognized as providing the service to the municipality. The Franklin Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Burlington Township	Bradford	\$1,365	\$1,260	\$1,418	\$2,300
Franklin Township	Bradford	\$4,054	\$3,718	\$4,185	\$6,631

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Franklin Township Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Franklin Township Volunteer Fire Department

FRANKLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – 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 \$6,000; however, as of December 31, 2011, the relief association's cash assets totaled \$8,996.

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.

As a result of our audit, and subsequent to the audit period, on October 28, 2013, the bond was increased to \$10,000.

Recommendation: We recommend that relief association officials continue to ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. 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 and increased the bond coverage as disclosed above. Management also indicated that the relief association will continue to take the necessary actions to comply with the recommendation in the future.

FRANKLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (CONTINUED)

Finding No. 2 – Failure to Secure Ownership of Vehicle

Condition: On October 22, 2010, the relief association expended \$2,111 for the purchase of a used ambulance with the intentions of modifying the vehicle into a relief association rescue vehicle. However, relief association officials determined that the planned modification was not feasible and the vehicle was subsequently sold in 2012 for scrap. Although the relief association maintained documentation related to the original vehicle purchase, the relief association failed to maintain documentation evidencing the relief association's proof of ownership such as a vehicle registration or title in the name of the relief association. Furthermore, the relief association could not provide any documentation related to the disposition of the vehicle.

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), [FN1] 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.

Prudent business practice dictates that the relief association should secure its proportional ownership in any purchased vehicle by maintaining ownership documentation or documentation related to the subsequent sale of the vehicle and receipt of sale proceeds.

Cause: Relief association officials failed to adequately secure its proportional ownership interest in the purchased vehicle.

Effect: Failure to adequately secure the ownership in the purchased vehicle places the relief association's assets interest at greater risk.

Furthermore, the relief association's failure to maintain documentation evidencing the ownership and disposition of the relief association vehicle and subsequent deposit of the proceeds from such disposition may lead to a total withholding of state aid, as detailed on page 10 of this report.

FRANKLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (CONTINUED)

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association take all steps necessary to obtain documentation related to the original purchase and ownership of the vehicle and documentation related to the sale of the vehicle for scrap. In addition, the relief association should obtain documentation showing that proceeds from the sale of the vehicle for scrap were deposited into a relief association account. If such action is not taken, we recommend the relief association be reimbursed \$2,111 for the disposition of the relief association vehicle. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management did not agree with the finding via an electronic message sent to the auditor on June 28, 2013. In addition, in October 2013, the relief association indicated that proper documentation would be obtained and forwarded to this department. However, the relief association failed to forward such documentation to the auditors as of the date of this report.

Auditor's Conclusion: Based on the management response, since documentation evidencing the ownership and disposition of the relief association vehicle and subsequent deposit of the proceeds from such disposition was not provided by relief association officials as of the date of this report, the issue remains as stated.

FRANKLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (CONTINUED)

Finding No. 3 – 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. Equipment purchased during the audit period amounted to \$17,882; however, there was no formal roster maintained by the relief association documenting the details of such equipment purchased for the current audit period.

Criteria: Prudent business practice dictates 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 owned equipment. A cumulative equipment roster of all relief association equipment should include 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; and
- Evidence of the performance and results of an annual physical inventory.

Furthermore, prudent business practice requires the performance of an annual physical inventory of all relief association owned equipment.

Cause: Relief association officials failed to establish adequate internal control procedures over equipment 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 owned equipment.

Furthermore, the relief association's failure to properly record equipment purchased with relief association funds in a detailed equipment roster may lead to a total withholding of state aid, as detailed on page 10 of this report.

FRANKLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (CONTINUED)

Finding No. 3 – (Continued)

Recommendation: We recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. 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: The relief association was made aware of the finding via exit conference memorandum dated August 7, 2012 and subsequently mailed to the relief association's management. However, the relief association's management failed to respond to the exit conference memorandum or return any correspondence back to the auditors as of the date of this report.

Auditor's Conclusion: Since the relief association's management failed to provide a formal response or formal corrective action plan, the finding remains as stated. We will evaluate any subsequent correspondence or corrective action received from the relief association upon receipt of such correspondence or documented corrective action and follow up accordingly, in our subsequent audit of the relief association.

FRANKLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
OBSERVATION

Observation – Scope Limitation Failure to Provide a Management Representation Letter

The management of the Franklin Township Volunteer Firefighters' Relief Association (VFRA) failed to provide the auditors with a signed written management representation letter. Requests for the management representation letter were made on September 18, 2013 and again, on October 15, 2013.

According to auditing standards, specifically GAGAS 7.05, audit risk is the possibility that the auditor's findings, conclusions, recommendations, or assurance may be improper or incomplete, as a result of factors such as evidence that is not sufficient and/or appropriate, an inadequate audit process, or internal omissions or misleading information due to misrepresentation or fraud. Audit risk can be reduced by taking actions such as obtaining alternate forms of corroborating evidence. A management representation letter (MRL) is an alternate form of corroborating evidence.

Obtaining a MRL provides additional evidence confirming representations explicitly or implicitly given to the auditor during the conduct of fieldwork, documentation of the continuing appropriateness of those representations, and opportunity to reduce the possibility of misunderstanding concerning matters that are subject of the representations. The MRL seeks to obtain assurance that the VFRA has not withheld any important information. Therefore obtaining the MRL supports a reduction of risk

At the conclusion of fieldwork, auditors provided a copy of the MRL and explained the purpose of the MRL to VFRA officials. VFRA officials were asked to complete the MRL and return it to the auditors. However the VFRA officials failed to provide auditors with a signed MRL.

Without a signed MRL, auditors could not obtain additional assurances that VFRA management: understood that they are responsible for compliance with state laws, contracts, bylaws, and administrative procedures, made all records and data available to the auditors, have had no communication with any regulatory agency concerning noncompliance with state laws, contracts except as disclosed, and are not aware of any fraud involving VFRA offices or families that may impact the VFRA. Furthermore, without a signed MRL auditors could not obtain additional assurances that VFRA management understood that they are responsible for establishing effective internal controls, have no intention to terminate or dissolve the VFRA, have disclosed all related party transaction, have complied with all contractual agreements, and have not altered falsified, discarded, or removed any records without informing the auditor.

The relief association's failure to provide a management representation letter constitutes a scope limitation on our audit.

FRANKLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported in Finding Nos. 2 and 3 contained in this 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 volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

FRANKLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2011

Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 2,027
Total Benefit Services	\$ 2,027
Fire Services:	
Equipment purchased	\$ 17,882
Equipment maintenance	1,571
Training expenses	175
Total Fire Services	\$ 19,628
Administrative Services:	
Miscellaneous administrative expenses	\$ 48
Total Administrative Services	\$ 48

FRANKLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Franklin Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Josh Swain, President  
Mr. Daniel Jennings, Vice President  
Ms. Donald Stranger, Jr., Secretary  
Mr. Donald Stranger, Sr., Treasurer

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

Mr. Edward Grant, Secretary  
Burlington Township

Ms. Sandy McNeal, Secretary  
Franklin Township

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).