



**THE MT. HOLLY SPRINGS VOLUNTEER FIREMAN'S
RELIEF ASSOCIATION**

CUMBERLAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO MARCH 4, 2011

RELEASED JUNE 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DePASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. George M. Stapleton, President
CITIZENS NO. 1 VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Cumberland County

We have conducted a compliance audit of the former Mount Holly Springs 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, 2009 to March 4, 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 former Mount Holly Springs 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 former Mount Holly Springs Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the former Mount Holly Springs Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of March 4, 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, 2009 to March 4, 2011, found the former Mount Holly Springs Volunteer Firefighters' 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 – Undocumented Expenditures

Finding No. 2 – Unauthorized Expenditure

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

The results of our tests also indicated the former Mount Holly Springs Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information. However, as of March 4, 2011, the former Mount Holly Springs Volunteer Firefighters' Relief Association dissolved its organization and merged with South Middleton Township Volunteer Firefighters' Relief Association to form the Citizens No. 1 Volunteer Firefighters' Relief Association.

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 former Mount Holly Springs Volunteer Firefighters' Relief Association and management of the Citizens No. 1 Volunteer Firefighters' Relief Association on February 6, 2014 and, where appropriate, their responses have been included in the report. As a result of the merger, the former Mount Holly Springs Volunteer Firefighters' Relief Association transferred all of its monetary assets and equipment to the Citizens No. 1 Volunteer Firefighters' Relief Association.

A handwritten signature in dark ink, appearing to read "Eugene A. DePasquale", with a stylized, sweeping flourish at the end.

March 7, 2014

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 former Mt. Holly Springs Volunteer Fireman's Relief Association, herein referred to as Mount Holly Springs Volunteer Firefighters' Relief Association, was 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.

BACKGROUND (Continued)

The former Mount Holly Springs Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Cooke Township	Cumberland	\$ 972	*	*
Dickinson Township	Cumberland	\$17,802	*	*
Mount Holly Springs Borough	Cumberland	\$10,842	*	*
South Middleton Township	Cumberland	\$35,143	*	*

*In 2010, due to the impending merger, the above municipalities ceased allocations of state aid to the former Mount Holly Springs Volunteer Firefighters' Relief Association and instead allocated state aid to the South Middleton Township Volunteer Firefighters' Relief Association.

Additionally, as of March 4, 2011, the former Mount Holly Springs Volunteer Firefighters' **Relief Association dissolved its organization and merged with South Middleton Township** Volunteer Firefighters' Relief Association to form Citizens No. 1 Volunteer Firefighters' Relief Association. Thereafter, it did not receive any further state aid allocations (see Accompanying Expenditure Information on page 9).

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The former Mount Holly Springs Volunteer Firefighters' Relief Association was affiliated with the following fire service organization:

Citizens Fire Company No. 1

MOUNT HOLLY SPRINGS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

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

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
03/27/09	1180	\$ 99
10/05/09	1227	1,863
Total		<u>\$ 1,962</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), [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.

Without adequate supporting documentation, such as invoices, 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 verify 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, 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.

MOUNT HOLLY SPRINGS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 1 – (Continued)

Recommendation: Due to the dissolution of the Mount Holly Springs Volunteer Firefighters' Relief Association, we are providing officials of the Citizens No. 1 Volunteer Firefighters' Relief Association copies of this report so that they are aware of the conditions that were detected in the operations of the former Mount Holly Springs Volunteer Firefighters' Relief Association during the course of this audit. We recommend the Citizens No. 1 Volunteer Firefighters' Relief Association provide this department with adequate supporting documentation, such as invoices, to verify the propriety of the expenditures or that the relief association be reimbursed \$1,962 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: Compliance will be subject to verification through our next audit.

Finding No. 2 – Unauthorized Expenditure

Condition: The relief association expended \$2,427 for the purchase of a door access system associated with a fire company building security system that is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(11) states:

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

- (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 a door access system do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials were unaware that the expenditure for the door access system was not authorized by Act 118.

MOUNT HOLLY SPRINGS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – (Continued)

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: Due to the dissolution of the Mount Holly Springs Volunteer Firefighters' Relief Association, we are providing officials of the Citizens No. 1 Volunteer Firefighters' Relief Association copies of this report so that they are aware of the conditions that were detected in the operations of the former Mount Holly Springs Volunteer Firefighters' Relief Association during the course of this audit. We recommend the Citizens No. 1 Volunteer Firefighters' Relief Association be reimbursed \$2,427 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 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not 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 roster was incomplete since it did not contain the names of suppliers (vendors), dates of purchase, cost of equipment and serial numbers to accurately identify equipment owned by the relief association. As such, it was impossible to determine if all equipment purchased during the audit period, in the amount of \$93,691, was recorded. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, to account for the relief association's owned equipment.

MOUNT HOLLY SPRINGS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – (Continued)

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 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.

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 equipment. Moreover, as a result of the incomplete and inaccurate equipment roster, we could not determine if all equipment owned by the Mount Holly Springs Volunteer Firefighters' Relief Association was transferred to the Citizens No. 1 Volunteer Firefighters' Relief Association at the time of the dissolution of the Mount Holly Springs Volunteer Firefighters' Relief Association.

MOUNT HOLLY SPRINGS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – (Continued)

Recommendation: Due to the dissolution of the Mount Holly Springs Volunteer Firefighters' Relief Association, we are providing officials of the Citizens No. 1 Volunteer Firefighters' Relief Association copies of this report so that they are aware of the conditions that were detected in the operations of the former Mount Holly Springs Volunteer Firefighters' Relief Association during the course of this audit. We recommend the Citizens No. 1 Volunteer Firefighters' 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: 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.

MOUNT HOLLY SPRINGS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OBSERVATION

Observation – Scope Limitation

The former Mount Holly Springs Volunteer Firefighters' Relief Association (VFRA) did not maintain canceled or imaged checks. Without copies of canceled or imaged checks, we could not determine whether two VFRA officers authorized and signed the checks. While the VFRA provided bank statements, the VFRA failed to provide copies of canceled or imaged checks.

Act 118 at 35 Pa.C.S. § 7415(c)(3) requires that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

Act 118 at 35 Pa.C.S. § 7418(a) provides that the Department of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association . . . 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.

Generally Accepted Government Auditing Standards (GAGAS) Section No. 6.56 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 6.61(f) states, "Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity."

Our inability to review canceled checks or imaged checks constitutes a scope limitation on our audit.

MOUNT HOLLY SPRINGS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2009 TO MARCH 4, 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	\$ 8,462
Relief benefits	128
Total Benefit Services	<u>\$ 8,590</u>
Fire Services:	
Equipment purchased	\$ 93,691
Equipment maintenance	29,465
Training expenses	5,185
Fire prevention materials	452
Total Fire Services	<u>\$ 128,793</u>
Administrative Services:	
Other administrative expenses	<u>\$ 766</u>
Other expenditures:	
Transfer of monetary assets*	\$ 91,846
Undocumented expenditures	1,962
Total Other Expenditures	<u>\$ 93,808</u>

MOUNT HOLLY SPRINGS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION (CONTINUED)
FOR THE PERIOD JANUARY 1, 2009 TO MARCH 4, 2011

*Transfer of Monetary Assets/Dissolution of Mount Holly Springs Volunteer Firefighters' Relief Association.

As of March 4, 2011, the Mount Holly Springs Volunteer Firefighters' Relief Association completed the process of dissolution and merged with South Middleton Township Volunteer Firefighters' Relief Association to form Citizens No. 1 Volunteer Firefighters' Relief Association. Consequently, all remaining monetary assets were transferred to the Citizens No. 1 Volunteer Firefighters' Relief Association. Due to the dissolution of the former Mount Holly Springs Volunteer Firefighters' Relief Association, we are providing officials of the Citizens No.1 Volunteer Firefighters' Relief Association copies of this report.

FORMER MOUNT HOLLY SPRINGS VOLUNTEER FIREFIGHTERS' RELIEF
ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

The former Mount Holly Springs Volunteer Firefighters' Relief Association Governing Body:

Mr. David Collins, President

Mr. Mike Otto, Vice President

Ms. Tonya Clouse, Secretary

The Citizens No. 1 Volunteer Firefighters Relief Association Governing Body

Mr. George M. Stapleton, President

Mr. Brent Shughart, Vice President

Mr. Spencer M. Otto, Secretary

Mr. William Steger, Treasurer

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

Ms. Carol A. Jones, Secretary
Cooke Township

Ms. Denise A. Gembusia, Secretary
Dickinson Township

Ms. Cheryl D. Smith, Secretary
Mount Holly Springs Borough

Ms. Sandra Quickel, Secretary
South Middleton Township

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