



**PERSEVERANCE FIRE COMPANY VOLUNTEER
FIREMEN'S RELIEF ASSOCIATION**

LEBANON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Daniel Mohn, President
PERSEVERANCE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lebanon County

We have conducted a compliance audit of the Perseverance 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 December 31, 2012.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. 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 objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Perseverance 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 objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Perseverance Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Perseverance Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2012, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. 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 objectives.

The results of our audit, for the period January 1, 2009 to December 31, 2012, found the Perseverance Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the five findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Perseverance 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. The results of our tests also indicated the Perseverance Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$36,917 and no investments.

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Obtain a Federal Tax Identification Number
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes of Meetings
- Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure to Deposit Investment Income
- Finding No. 4 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A complete and Accurate Equipment Roster
- Finding No. 5 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage

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

August 19, 2013

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

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 Perseverance Fire Company Volunteer Firemen's Relief Association, herein referred to as Perseverance 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 Perseverance Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Jonestown Borough	Lebanon	\$7,098	\$7,989	\$17,245	\$9,829

BACKGROUND (Continued)

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

Perseverance Fire Company

PERSEVERANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Perseverance Volunteer Firefighters' Relief Association has not complied with the five prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

Noncompliance With Prior Audit Recommendation – Failure to Obtain a Federal Tax Identification Number

Noncompliance With Prior Audit Recommendation – Inadequate Minutes of Meetings

Noncompliance With Prior Audit Recommendation – Failure to Deposit Investment Income

Noncompliance With Prior Audit Recommendation – Failure To Maintain A complete and Accurate Equipment Roster

Noncompliance With Prior Audit Recommendation - Insufficient Surety (Fidelity) Bond Coverage

The volunteer firefighter's relief association increased the officer's bond coverage to an amount greater than the balance of the relief association's cash assets. However, during the current audit period, the bond coverage lapsed during November 2012, due to nonpayment by the relief association as disclosed in Finding No. 5 contained in this report.

We are concerned with the volunteer firefighters' relief association's failure to correct **the** previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

PERSEVERANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Obtain a
Federal Tax Identification Number

Condition: As cited in our three prior audit reports, the relief association officials, again, failed to comply with the Tax Equity and Fiscal Responsibility Act by not obtaining a federal tax identification number.

Criteria: All businesses, both profit and nonprofit, are required to obtain a federal tax identification number and provide this number to any financial institution where funds are earning interest. If their tax identification number is not provided, the financial institution is required to withhold 31 percent of interest earned and transmit these funds to the Internal Revenue Service, representing federal income taxes.

Cause: Even though notified of this condition in our prior audits, the relief association, again, neglected to take the appropriate steps in order to procure its own federal tax identification number.

Effect: Failure to comply with the Tax Equity and Fiscal Responsibility Act could cause the relief association to be penalized by the Internal Revenue Service, resulting in the loss of funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We again recommend the relief association immediately apply for its own federal tax identification number through the Internal Revenue Service and furnish this number to its financial institutions. The relief association should also consider applying to the Internal Revenue Service for tax exempt status as a nonprofit corporation under Internal Revenue Code 501(c). 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 necessary to comply with the recommendation.

PERSEVERANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes of Meetings

Condition: As cited in two prior audit reports, the relief association failed to maintain detailed minutes of meetings as required by Act 118. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

. . . must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

Cause: Even though notified of this condition during our two prior audits, relief association officials, again, neglected to maintain detailed minutes of meetings as required by Act 118.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We again recommend the relief association maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. 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.

PERSEVERANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Noncompliance With Prior Audit Recommendation –Failure to Deposit
Investment Income

Condition: As cited in our prior audit report, the relief association did not deposit the interest earned on a certificate of deposit (CD) in the amount of \$221 into a relief association account. Although the relief association did receive a partial deposit of the outstanding interest earned, the relief association still has yet to receive \$68 of interest earned on the CD. According to the records provided by the relief association in the prior audit period, the bank issued the interest checks but the relief association failed to deposit the checks into a relief association account.

Criteria: According to The Management Guidelines for Volunteer Firefighters' Relief Associations, relief association officials are responsible for the management of association assets. The prudent investment of association monies is a primary element of this responsibility. The investment objective of any relief association is to obtain income from investments resulting in the growth of relief association assets to ultimately provide benefits and safeguards for volunteer firefighters.

Cause: The relief association failed to establish internal control procedures to ensure that all investment income received by the relief association is properly recorded and deposited.

Effect: As a result of CD interest not being deposited, funds were not available, to pay general operating expenses or for investment purposes. In addition, untimely deposits of receipts can lead to a greater risk that funds could be lost or misappropriated.

Recommendation: We again recommend the relief association contact the bank and determine the status of the outstanding interest check amounting to \$68 and determine if the check can be reissued. In addition, we again recommend the relief association ensure the timely deposit of all future 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 indicated they will take action to comply with the recommendation.

PERSEVERANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our prior audit report, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. Specifically, the relief association has not maintained an equipment roster since the year 2000. Equipment purchases during the current audit period amounted to \$38,329. 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.

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.

Cause: Even though notified of this condition during our prior audit, relief association officials neglected to establish adequate internal control procedures over fixed assets 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.

PERSEVERANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 4 – (Continued)

Recommendation: We again 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: 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.

PERSEVERANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 5 – Noncompliance With Prior Audit Recommendation - Insufficient Surety (Fidelity) Bond Coverage

Condition: As disclosed in the Status of Prior Findings section of this report, the relief association allowed the bond coverage on the authorized disbursing officer of the relief association to lapse on November 1, 2012 due to nonpayment. Therefore, the relief association failed to maintain bond coverage on the authorized disbursing officer as required by Act 118. A notice of cancellation for the bond policy was issued November 1, 2012; therefore, the relief association has not maintained appropriate bond coverage since November 1, 2012 to the date of this report.

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 were unaware that the bond coverage had lapsed.

Effect: As a result of the disbursing officer of the relief association not being bonded, the 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. 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.

PERSEVERANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2012

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	\$ 2,298
Total Benefit Services	<u>\$ 2,298</u>
Fire Services:	
Equipment purchased	\$ 38,329
Training expenses	1,510
Total Fire Services	<u>\$ 39,839</u>

PERSEVERANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Perseverance Volunteer Firefighters' Relief Association Governing Body:

Mr. Daniel Mohn, President

Mr. Robert Taylor, Vice President

Mr. Miachel Johnson, Secretary

Mr. Thomas Mohn, Treasurer

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

Ms. Joan Keefer, Secretary
Jonestown Borough

This report is a matter of public record and is available online at 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: newsauditorgen.state.pa.us.