# VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF MOSCOW, PA

## LACKAWANNA COUNTY

## COMPLIANCE AUDIT REPORT

## FOR THE PERIOD

## JANUARY 1, 2009 TO DECEMBER 31, 2012

Released April 2014

Commonwealth of Pennsylvania

Eugene A. DePasquale - Auditor General

Department of the Auditor General

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Mr. Steven Warner, President
MOSCOW VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lackawanna County

We have conducted a compliance audit of the Moscow 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 finding 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 Moscow 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 Moscow Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Moscow 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 Moscow Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this report. In addition, the results of our audit found the Moscow 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 in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Moscow Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of $33,776 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditure

Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 3 – Untimely Deposit of State Aid

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

October 15, 2013

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 Volunteer Firemen's Relief Association of Moscow, PA, herein referred to as Moscow 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 Moscow Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

| Municipality | County | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Moscow Borough | Lackawanna | $12,028 | $13,538 | $21,656 | $12,274 |

BACKGROUND (Continued)

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

Moscow Fire and Hose Company, Inc.

MOSCOW VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Moscow Volunteer Firefighters' Relief Association has not complied with the following prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation – Unauthorized Expenditure

  Even though the relief association received reimbursement amounting to $10,145 from the affiliated fire company on February 10, 2009, for unauthorized expenditures for insurance coverage not for the direct benefit of the volunteer firefighters made during the prior audit period, the relief association made an additional unauthorized expenditure of $250 during the current audit period, as discussed in Finding No. 1 contained in this report.

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

MOSCOW VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditure

Condition: As disclosed in the Status of Prior Findings section of this report, although the relief association received reimbursement from the affiliated fire company for unauthorized insurance premiums not for the direct benefit of the volunteer firefighters amounting to $10,145, the relief association expended an additional $250 during the current audit period, for the affiliated fire company's Surety (Fidelity) bond insurance on its treasurer which is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(2 and 12) states:

> The funds of any volunteer firefighters' relief association may be spent:
>
> (2) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of the member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.
>
> (12) To secure insurance against legal liability of the volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or performing their duties as special fire police.

Costs associated with the purchase of Surety (Fidelity) bond insurance for an affiliated fire company's disbursing officer, do not qualify as an authorized volunteer firefighters' relief association expenditures; consequently, this disbursement is not authorized under Act 118.

Finding No. 1 – (Continued)

Cause: Relief association officials were made aware that expenditures for insurance coverage not for the direct benefit of the volunteer firefighters were not authorized by Act 118 during the prior audit period; however, officials failed to implement adequate procedures to ensure that relief association funds were only disbursed for authorized expenditures according to Act 118.

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.

As a result of our audit, and subsequent to the audit period, the relief association received reimbursement of $250, on March 28, 2013, from the affiliated fire company for the unauthorized expenditure.

Recommendation: We again recommend 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.

Finding No. 2 – 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 $30,000; however, as of December 31, 2012, the relief association's cash assets totaled $33,776.

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.

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. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. 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 as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Finding No. 3 – Untimely Deposit of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2011 state aid allocation it received from Moscow Borough on October 19, 2011, in the amount of $21,656, until February 3, 2012, which was 107 days after receipt.

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 practice dictates that, upon receipt of its state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

Cause: The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 26, 2011, who forwarded this state aid to the volunteer firefighters' relief association on October 19, 2011, 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, the relief association failed to establish internal control procedures to ensure that all income received was recorded and deposited in a timely manner. Relief association officials also indicated that the check was inadvertently misplaced.

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 the relief association officials adopt internal control procedures to 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.

MOSCOW 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 | $ | 34,374 |
| Total Benefit Services | $ | 34,374 |
| | | |
| Fire Services: | | |
| Equipment purchased | $ | 12,046 |
| Equipment maintenance | | 1,689 |
| Training expenses | | 150 |
| Total Fire Services | $ | 13,885 |
| | | |
| Administrative Services: | | |
| Other administrative expenses | $ | 434 |
| Total Administrative Services | $ | 434 |

MOSCOW VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Moscow Volunteer Firefighters' Relief Association Governing Body:

Mr. Steven Warner, President

Mr. Robert Fidiam, Vice President

Mr. John Sanko, Secretary

Mr. Patrick Reid, Treasurer

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

Ms. Constance A. Sanko, Secretary
Moscow 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: news@auditorgen.state.pa.us.