

# COMPLIANCE AUDIT

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## Felton Firefighters' Relief Association

York County, Pennsylvania  
For the Period  
January 1, 2010 to December 31, 2013

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December 2014



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Mr. Shane Baldwin, President  
FELTON VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
York County

We have conducted a compliance audit of the Felton 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, 2010 to December 31, 2013.

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 Felton 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 Felton Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Felton Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2013, 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.

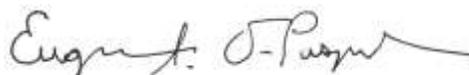
The results of our audit, for the period January 1, 2010 to December 31, 2013, found the Felton Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this report. In addition, the results of our audit found the Felton 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 – Noncompliance With Prior Audit Recommendation –  
Inadequate Minutes of Meetings

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

The results of our tests also indicated the Felton Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$68,902.

The contents of this report were discussed with the management of the Felton Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.



EUGENE A. DEPASQUALE  
Auditor General

November 21, 2014

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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 Felton Firefighters' Relief Association, herein referred to as the Felton 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.

**BACKGROUND – (Continued)**

The Felton Volunteer Firefighters’ Relief Association was allocated state aid from the following municipalities:

| <u>Municipality</u>     | <u>County</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|-------------------------|---------------|-------------|-------------|-------------|-------------|
| Chanceford Township *   | York          | \$ -        | \$10,000    | \$ 5,000    | \$ 6,000    |
| Felton Borough          | York          | \$ 3,079    | \$ 4,956    | \$ 2,804    | \$ 3,137    |
| North Hopewell Township | York          | \$ 2,115    | \$ 3,278    | \$ 1,861    | \$ 2,060    |
| Windsor Township        | York          | \$18,416    | \$32,576    | \$18,541    | \$25,017    |

\* The Felton Volunteer Firefighters’ Relief Association began receiving state aid allocations from Chanceford Township in 2011.

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

Union Volunteer Fire Company of Felton

FELTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Felton 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:

- Inadequate Minutes of Meetings

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

FELTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendationn – Inadequate Minutes  
Of Meetings**

Condition: As cited in our prior audit report, the relief association again, 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. The relief association only provided 2 months out of 12 months of meeting minutes for the year 2010, 3 months out of 12 months of meeting minutes for the year 2011, and 2 months out of 12 months of meeting minutes for the years 2012 and 2013. In addition, the fire company and relief association minutes of meetings were comingled.

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.

In addition, the relief association bylaws at Article 2, Section 1 states, in part:

Regular meetings of this association shall be held on the first Wednesday of each month before the regular meeting of the Union Vol. Fire Co. of Felton.

Furthermore, the relief association bylaws at Article 3, Section 3 states, in part:

The secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note authorization by the membership of all association financial transactions and all other pertinent business discussed at meetings.

Cause: Even though notified of this condition during our prior audit, 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.

FELTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted.

**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 \$50,000; however, as of December 31, 2013, the relief association's cash assets totaled \$68,902.

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.

FELTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

**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. 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 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.

FELTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2010 TO DECEMBER 31, 2013

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:                    |           |
| Total Insurance premiums             | \$ 15,159 |
| Fire Services:                       |           |
| Equipment purchased                  | \$ 67,071 |
| Equipment maintenance                | 6,748     |
| Training expenses                    | 6,983     |
| Total Fire Services                  | \$ 80,802 |
| Administrative Services:             |           |
| Other administrative expenses        | \$ 50     |
| Unauthorized bank charges (See Note) | 1,652     |
| Total Administrative Services        | \$ 1,702  |
| Total Investments Purchased          | \$ 20,000 |

Note: The relief association's debit card was compromised and fraudulent charges were made to the account. The charges were not made by relief association or fire company officials. Relief officials informed the bank of these fraudulent charges and the bank promptly reimbursed the relief association for all charges and rectified the situation by closing the debit card, checking and savings accounts. New accounts were opened for the relief association and relief association officials opted to no longer maintain a debit card.

FELTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Felton Volunteer Firefighters' Relief Association Governing Body:

|                   |                |
|-------------------|----------------|
| Mr. Shane Baldwin | President      |
| Mr. Scott Baldwin | Vice President |
| Ms. Sherry Arnold | Secretary      |
| Mr. Barry Jackson | Treasurer      |

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

|  |           |
|--|-----------|
| Ms. Danielle Folkenroth<br>Chanceford Township | Secretary |
| Ms. Joy Flinchbaugh<br>Felton Borough          | Secretary |
| Ms. Kerrie Ebaugh<br>North Hopewell Township   | Secretary |
| Ms. Jennifer L. Gunnet<br>Windsor Township     | Secretary |

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).