



LICK HILL FIREMEN'S RELIEF ASSOCIATION
BUTLER COUNTY
COMPLIANCE AUDIT REPORT
FOR THE PERIOD
JANUARY 1, 2010 TO DECEMBER 31, 2012

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. Peter D. Gall, President
LICK HILL VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Butler County

We have conducted a compliance audit of the Lick Hill 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, 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 Lick Hill 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 Lick Hill Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Lick Hill 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, 2010 to December 31, 2012, found the Lick Hill Volunteer Firefighters' Relief Association took appropriate corrective action to address the finding contained in our prior audit report and, 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 Lick Hill Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$12,328 and no investments.

Finding No. 1 – Inappropriate Presigning of Blank Checks

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Inadequate Minutes of Meetings

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 Lick Hill Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

October 24, 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 Lick Hill Firemen's Relief Association, herein referred to as Lick Hill 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 Lick Hill 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>
Oakland Township	Butler	\$ 500*	\$ 1,000	*
Summit Township	Butler	\$14,961	\$22,829	\$13,206

*The 2010 state aid received from Oakland Township was not deposited into a relief association account until May 28, 2013, due to oversight; however, for 2011 and 2012, state aid was properly deposited in accordance with Act 118. In addition, Oakland Township did not allocate state aid to the relief association in 2012.

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

Lick Hill Volunteer Fire Department

LICK HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Lick Hill Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Undocumented Expenditures

By receiving reimbursement from the Lick Hill Volunteer Fire Department in the amount of \$255 for the undocumented expenditures made during the prior audit period.

LICK HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inappropriate Presigning of Blank Checks

Condition: A review of the relief association's checkbook, at the time of the audit engagement, revealed that six blank checks were presigned by one of the two relief association officers who are authorized to sign checks. The presigning of blank checks negates the relief association's internal control over the disbursement process.

Criteria: Prudent business practice dictates that the relief association has sufficient internal control procedures in place to prohibit the presigning of blank checks. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to signing the checks.

Cause: The relief association's officers were aware of the necessity for two signatures but did not realize that applying the first signature prior to evaluating the propriety of the expenditure negated the relief association's internal controls over the disbursement process.

Effect: As a result of one of the two authorized relief association officers presigning the blank checks, relief association assets were placed at greater risk of misappropriation since the officer who presigned the blank checks did not have the opportunity to verify the propriety of the expenditures.

Recommendation: We recommend that the practice of presigning blank checks be immediately discontinued. We also recommend that all of the relief association officers ensure that checks are signed and co-signed only after the propriety of the expenditures have been determined and the payees, dates, and amounts to be paid have been confirmed. 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.

LICK HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds during the current audit period, for the following items that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
12-19-11	501	Repairs to Fire Department Owned Vehicle	\$ 946
01-10-12	508	Repairs to Fire Department Owned Vehicle	<u>3,000</u>
Total			<u>\$ 3,946</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1 and 11) states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

- (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 repairs made to fire department owned vehicles do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials were unaware that the aforementioned expenditures were not authorized by Act 118.

Effect: As a result of these improper expenditures, 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, on May 31, 2013, the relief association received reimbursement from the Lick Hill Volunteer Fire Department, in the amount of \$3,946, for the unauthorized expenditures made during the current audit period.

LICK HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No 2 – (Continued)

Recommendation: We 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, took the corrective action noted above and indicated they will take the necessary action to ensure compliance with the recommendation in subsequent periods.

LICK HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Inadequate Minutes of Meetings

Condition: 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. Moreover, the relief association only provided nine months of meeting minutes in 2010, seven months of meeting minutes in 2011, and nine months of meeting minutes in 2012. Finally, the relief association failed to include the treasurer's report of all expenditures to be paid with the detailed meeting minutes.

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 II, Section I, states, in part:

Regular meetings of this association shall be held the first Thursday of each month.

Furthermore, the relief association bylaws at Article V, Section 1, states, in part:

All expenditures must be approved by a majority vote at an association meeting and duly recorded in the minutes.

Cause: Relief association officials were unaware that maintaining detailed minutes of meetings was 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 recommend the relief association maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association 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.

LICK HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Scope Limitation

The Lick Hill Volunteer Firefighters' Relief Association (VFRA) does not maintain canceled or imaged checks. Without copies of canceled or imaged checks, we could not determine whether two VFRA officers authorized and signed VFRA 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 that “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.

LICK HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2010 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	\$ 6,922
Fire Services:	
Equipment purchased	\$ 20,548
Equipment maintenance	22,370
Training expenses	3,327
Total Fire Services	\$ 46,245
Administrative Services:	
Other administrative expenses	\$ 777
Other Expenditures:	
Principal payments on loan	\$ 6,625
Interest payments on loan	348
Principal payments on lease-financing	1,825
Interest payments on lease-financing	787
Correction of an erroneous deposit	6,420
Total Other Expenditures	\$ 16,005

LICK HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Lick Hill Volunteer Firefighters' Relief Association Governing Body:

Mr. Peter D. Gall	President
Mr. Lee P. Gumpp	Vice President
Mr. Michael Bester	Secretary
Ms. Kara L. Gold	Treasurer

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

Ms. Nadine A. Neff, Secretary
Oakland Township

Ms. Judy K. Rupp, Secretary
Summit Township

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.