

COMPLIANCE AUDIT

Hilltown Township Volunteer Firefighter's Relief Association Bucks County, Pennsylvania For the Period January 1, 2010 to December 31, 2013

February 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. David Barnard, President
HILLTOWN TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Bucks County

We have conducted a compliance audit of the Hilltown Township 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 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 Hilltown Township 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 Hilltown Township Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Hilltown Township 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 Hilltown Township Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the three findings contained in our prior audit report. However, the Hilltown Township Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Hilltown Township 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 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Duplicate Payment


Finding No. 3 – Untimely Deposit Of State Aid

Finding No. 4 – Inadequate Signatory Authority For The Disbursement Of Funds

Finding No. 5 – Inadequate Minutes Of Meetings

The results of our tests also indicated the Hilltown Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$59,611 and an investment balance with a fair value of \$31,466.

The contents of this report were discussed with the management of the Hilltown Township 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.

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

EUGENE A. DEPASQUALE
Auditor General

January 16, 2015

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Background | 1 |
| Status of Prior Findings | 3 |
| Findings and Recommendations: | |
| Finding No. 1 – Noncompliance With Prior Audit Recommendation - Failure To Maintain A Complete And Accurate Equipment Roster | 4 |
| Finding No. 2 – Duplicate Payment | 5 |
| Finding No. 3 – Untimely Deposit Of State Aid..... | 6 |
| Finding No. 4 – Inadequate Signatory Authority For The Disbursement Of Funds | 7 |
| Finding No. 5 – Inadequate Minutes Of Meetings..... | 8 |
| Accompanying Expenditure Information | 10 |
| Report Distribution List | 11 |

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 Hilltown Township Volunteer Firefighter's 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 Hilltown Township 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> |
|----------------------|---------------|-------------|-------------|-------------|-------------|
| Hatfield Township | Bucks | \$ 7,861 | \$14,081 | \$ 6,987 | \$ 8,102 |
| Hilltown Township | Bucks | \$44,477* | \$69,109 | \$39,337 | \$42,333 |
| New Britain Township | Bucks | \$ 7,335 | \$10,824 | \$ 6,087 | \$ 6,885 |

* The state aid allocation received from Hilltown Township in 2010 was not deposited into a relief association account in accordance with Act 118 as disclosed in Finding No. 3 in this report.

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

Hilltown Township Volunteer Fire Company

HILLTOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Hilltown Township Volunteer Firefighters' Relief Association has complied with two of the three prior audit findings and recommendations, as follows:

- Undocumented Expenditure

By receiving reimbursement from the affiliated fire company, in the amount of \$713, for the undocumented expenditure that was made in the prior audit period; and

- Unauthorized Expenditure

By receiving reimbursement from the affiliated fire company, in the amount of \$274, for the unauthorized expenditure made in the prior audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Hilltown Township Volunteer Firefighters' Relief Association has not complied with one of the three prior audit findings. This finding is noted below and discussed in detail in the Finding and Recommendation section of this report:

- Failure To Maintain A Complete And Accurate Equipment Roster

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.

HILLTOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – 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 again failed to 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 listing was incomplete and did not accurately identify all of the equipment owned by the relief association. In addition, the roster provided consisted of inventories by vehicles and did not include the names of suppliers (vendors) dates of purchase, cost of equipment and serial numbers to accurately identify equipment owned by the relief association. Furthermore, 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 that 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 all of 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.
- Evidence of the performance and results of an annual physical inventory.

Cause: Even though notified of this condition during our four prior audits, relief association officials again 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 continued 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.

HILLTOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that 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.

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 in this audit report.

Finding No. 2 – Duplicate Payment

Condition: On April 26, 2010, the relief association expended \$1,114 for batteries. On June 7, 2010, the relief association erroneously made a duplicate payment for the same batteries. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices.

Cause: The volunteer firefighters' relief association failed to establish adequate internal control procedures that require all invoices or other billing documents to be canceled or otherwise effectively marked to prevent duplicate payments.

Effect: As a result of this erroneous payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend the relief association be reimbursed \$1,114 for the erroneous duplicate payment. The relief association should consider contacting the vendor to recover the duplicate payment. In addition, the relief association should establish accounting and internal control procedures to monitor future relief association expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

HILLTOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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: Based on the management response, it appears that the relief association intends to comply with our finding recommendation. Compliance will be subject to verification through our next audit.

Finding No. 3 – Untimely Deposit Of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2010 state aid allocation it received from Hilltown Township, in the amount of \$44,477, until April 7, 2011. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 20, 2010, who forwarded this state aid to the volunteer firefighters' relief association on October 27, 2010, 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, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited in a timely manner.

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 establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: The relief association failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner.

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.

HILLTOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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.

Auditor's Conclusion: Based on the management response, it appears that the relief association intends to comply with our finding recommendation. Compliance will be subject to verification through our next audit.

Finding No. 4 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 7 checks out of 245 checks drawn on the relief association's checking account that only contained the signature of one officer, even though two signatures are required by Act 118 and the relief association bylaws. Issuing checks with the signature of only one officer negates the relief association's internal control over the disbursement process.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) states, in part:

The bylaws shall require 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.

In addition, Article 3, Section 4 of the relief association's bylaws states:

...He/she shall not disburse any money except by check counter-signed by the Secretary.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. 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 approving the checks.

HILLTOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Cause: Relief association officials neglected to establish adequate internal control procedures that require the signatures of at least two officers on all negotiable instruments.

Effect: As a result of the relief association officer issuing checks with only one signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

Recommendation: We recommend the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined 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.

Auditor's Conclusion: Based on the management response, it appears that the relief association intends to comply with our finding recommendation. Compliance will be subject to verification through our next audit.

Finding No. 5 – 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.

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: Relief association officials indicated that they were unaware that maintaining detailed minutes of meetings was required by Act 118.

HILLTOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

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

Recommendation: We recommend that 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.

Auditor's Conclusion: Based on the management response, it appears that the relief association intends to comply with our finding recommendation. Compliance will be subject to verification through our next audit.

HILLTOWN TOWNSHIP 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: | |
| Insurance premiums | \$ 33,592 |
| Fire Services: | |
| Equipment purchased | \$ 220,386 |
| Equipment maintenance | 39,116 |
| Training expenses | 10,505 |
| Total Fire Services | \$ 270,007 |
| Administrative Services: | |
| Other administrative expenses | \$ 2,395 |

HILLTOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Hilltown Township Volunteer Firefighters' Relief Association Governing Body:

| | |
|--------------------|----------------|
| Mr. David Barnard | President |
| Mr. James Walter | Vice President |
| Ms. Rachel Goodwin | Secretary |
| Mr. Michael Dowse | Treasurer |

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

| | |
|---|-----------|
| Mr. Aaron Bibro Hatfield Township | Secretary |
| Mr. Richard Schnaedter Hilltown Township | Secretary |
| Ms. Eileen M. Bradley New Britain Township | Secretary |

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.