

COMPLIANCE AUDIT

West Shore Bureau of Fire Firefighters' Relief Association Cumberland County, Pennsylvania For the Period January 1, 2010 to December 31, 2013

September 2014



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

Ms. Alicia M. Pennick, President
WEST SHORE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Cumberland County

We have conducted a compliance audit of the West Shore 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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the West Shore 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the West Shore Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the West Shore 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 objective. 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 objective.

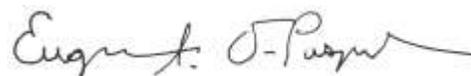
The results of our audit, for the period January 1, 2010 to December 31, 2013, found the West Shore Volunteer Firefighters' Relief Association in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Unauthorized Expenditure

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

The results of our tests also indicated the West Shore Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$173,811 and no investments.

The contents of this report were discussed with the management of the West Shore 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

June 10, 2014

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Unauthorized Expenditure	3
Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage.....	4
Accompanying Expenditure Information	6
Report Distribution List	7

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 West Shore Bureau of Fire Firefighters' Relief Association, herein referred to as the West Shore 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 West Shore 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>
Lemoyne Borough	Cumberland	\$38,227	\$61,997	\$35,177	\$40,368
Wormleysburg Borough	Cumberland	\$19,737	\$32,564	\$18,499	\$21,341

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

West Shore Bureau of Fire

WEST SHORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditure

Condition: The relief association expended \$8,690 on protein bars affiliated with a weight loss program during the current audit period. Although Act 118 allows the costs associated with nutritional education and instruction relative to a weight loss program, the cost of the food related to such a weight loss program is considered an unauthorized expenditure.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(13) states:

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

- (13) To maintain comprehensive health, physical fitness and physical monitoring programs that provide for physical fitness activities, nutrition education and instruction and health and fitness evaluation and monitoring, provided that programs have been approved by the nearest State-licensed health care facility which is authorized to provide that service.

Costs associated with the purchase of food supplements (protein bars) do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials were unaware that the expenditure for these supplemental protein bars was not authorized by 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.

Recommendation: We recommend the relief association be reimbursed for the unauthorized expenditure and 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.

WEST SHORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued):

Management's Response: Relief association officials acknowledged the department's position as presented at the audit exit conference; and subsequent to the audit period, on April 1, 2014, the relief association received reimbursement amounting to \$8,690 from the affiliated fire company for the unauthorized expenditure. However, relief association officials provided an additional response on April 18, 2014 indicating that as part of the program, TrimLine adds a certain number of their "trim bars" that are designed to assist with the weight loss program. The relief association contends that these bars consist of proteins with added nutrients and vitamin supplements to support each individual's own dietary program, and, that these bars are not a food supplement and would not strictly be used in place of a normal edible food substance. Officials also disclosed that TrimLine offers other food/drink items that are considered a substitution for normal food items and, as such, would not be allowable under the department's "Guidelines". However, the relief association believes that the "trim bars", as a protein and vitamin supplement, should be a part of the approved expenditures under the department's "Guidelines" because they are needed to supplement the weight loss program for each individual. Therefore, officials believe that the department should review and approve the expenditure totaling \$8,690 as part of the program.

Auditor's Conclusion: We appreciate the relief association's efforts to implement a weight loss program for the volunteer firefighters and commend them for these efforts, however it remains the position of the Department that while Act 118 authorizes expenditures for nutrition education and instruction and health and fitness evaluation and monitoring under the Act, any such programs must be approved by the nearest state-licensed health care facility authorized to provide that service. The purchase of food or nutritional supplements is specifically not included as a permissible expense under the Act; consequently, the finding and recommendation remain as stated. However, it appears that the relief association has taken the appropriate corrective action by receiving reimbursement amounting to \$8,690 from the affiliated fire company. The relief association's continued compliance will be subject to verification through our next audit.

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 \$150,000; however, as of December 31, 2013, the relief association's cash assets totaled \$173,811.

WEST SHORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued):

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. 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 subsequent to the audit period, effective March 19, 2014, the relief association increased their bond limit to \$200,000.

Auditor's Conclusion: It appears that the relief association has complied with our finding recommendation. Compliance will be subject to verification through our next audit.

WEST SHORE 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	\$ 50,823
Relief benefits	17,156
Total Benefit Services	\$ 67,979
Fire Services:	
Equipment purchased	\$ 40,534
Equipment maintenance	58,975
Training expenses	5,471
Total Fire Services	\$ 104,980
Administrative Services:	
Other administrative expenses	\$ 246
Other Expenditures:	
Principal payments on loan	\$ 29,708
Interest payments on loan	1,181
Total Other Expenditures	\$ 30,889

WEST SHORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

West Shore Volunteer Firefighters' Relief Association Governing Body:

Ms. Alicia M. Pennick	President
Mr. James Sprecker	Vice President
Mr. Shaun Donovan	Secretary
Mr. Gary W. Pennick	Treasurer

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

Ms. Kathryn Morrow Lemoyne Borough	Secretary
Mr. Gary W. Berresford Wormleysburg Borough	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.