



**MONTOURSVILLE FIREMEN'S RELIEF
ASSOCIATION, INC OF MONTOURSVILLE, PA**

LYCOMING COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2011 TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE 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

Mr. James Johns, President
MONTOURSVILLE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lycoming County

We have conducted a compliance audit of the Montoursville 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, 2011 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 Montoursville 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 Montoursville Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Montoursville 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, 2011 to December 31, 2012, found the Montoursville 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.

Finding No. 1 – Unauthorized Expenditure

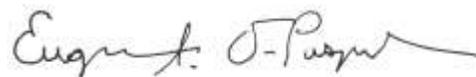
Finding No. 2 – Undocumented Expenditures

Finding No. 3 – Duplicate Payment

The results of our tests also indicated the Montoursville Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$63,352 and an investment balance with a fair value of \$155,590.

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

June 6, 2014



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	3
Findings and Recommendations:	
Finding No. 1 – Unauthorized Expenditure	4
Finding No. 2 – Unauthorized Expenditures.....	5
Finding No. 3 – Duplicate Payment	6
Accompanying Expenditure Information	7
Report Distribution List	8

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 Montoursville Firemen's Relief Association, Inc. of Montoursville, PA, herein referred to as the Montoursville 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 Montoursville Volunteer Firefighters’ Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2011</u>	<u>2012</u>
Fairfield Township	Lycoming	\$33,883	\$19,453
Montoursville Borough	Lycoming	\$47,852	\$27,208
Upper Fairfield Township	Lycoming	\$ 8,295	\$ 4,719

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

Willing Hand Hose Company No. 1, Inc.

MONTOURSVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain An Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

MONTOURSVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditure

Condition: The relief association expended \$2,047 for service/inspection of fire company-owned apparatus that is not authorized by Act 118.

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

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

- (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 the service/inspection of a vehicle titled in the fire department's name 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 a vehicle titled in the fire department's name is 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 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 subsequent to the period under review, on December 21, 2013, the relief association received reimbursement from the affiliated fire company in the amount of \$2,047 for the unauthorized expenditure.

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

MONTOURSVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
09/19/2012	1485	Equipment vendor	\$ 3,120
09/04/2012	1508	Training advancement	400
Total			<u>\$ 3,520</u>

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), [FN1] known as the Municipal Pension Plan Funding Standard and Recovery Act, 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.

Without adequate supporting documentation, such as invoices, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices made it impossible to determine if the expenditure was made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We recommend the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

MONTOURSVILLE 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 subsequent to the period under review, on May 9, 2014, the relief association provided documentation to evidence the propriety of the \$3,120 expenditure for the purchase of equipment and the \$400 training expenditure, accordingly.

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

Finding No. 3 – Duplicate Payment

Condition: On July 31, 2012, the relief association expended \$421 for a safety ladder. On September 4, 2012, the relief association erroneously made a duplicate payment for the same safety ladder. 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 \$421 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.

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.

MONTOURSVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2011 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	\$ 17,580
Death benefits	15,000
Tokens of sympathy and goodwill	2,024
Total Benefit Services	\$ 34,604
Fire Services:	
Equipment purchased	\$ 54,141
Equipment maintenance	18,665
Training expenses	7,461
Total Fire Services	\$ 80,267
Administrative Services:	
Officer compensation	\$ 800
Other administrative expenses	4,916
Total Administrative Services	\$ 5,716
Other Expenditures:	
Investments purchased	\$ 70,000
Undocumented expenditures	3,520
Total Other Expenditures	\$ 73,520

MONTOURSVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Montoursville Volunteer Firefighters' Relief Association Governing Body:

Mr. James Johns	President
Mr. Dave McKee	Vice President
Ms. Kathleen Snauffer	Secretary
Mr. Ed March	Treasurer

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

Mr. Ronald E. Springman Fairfield Township	Secretary
Ms. Ginny A. Gardner Montoursville Borough	Secretary
Ms. Penny Ruggieri Upper Fairfield 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.