

COMPLIANCE AUDIT

New Cumberland Volunteer Firemen's Relief Association Cumberland County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

October 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Edward J. Erlsten, President
NEW CUMBERLAND VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Cumberland County

We have conducted a compliance audit of the New Cumberland 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, 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 New Cumberland 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 New Cumberland Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the New Cumberland 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.

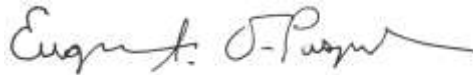
The results of our audit, for the period January 1, 2011 to December 31, 2013, found the New Cumberland Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the findings contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the New Cumberland 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 – Noncompliance With Prior Audit Recommendation – Failure to Maintain A Complete And Accurate Equipment Roster
- Finding No. 3 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditure

The results of our tests also indicated the New Cumberland Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$93,998 and an investment balance with a fair value of \$222,760.

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

September 24, 2014

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings	4
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster.....	6
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditure	7
Accompanying Expenditure Information	9
Report Distribution List	10

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 New Cumberland Volunteer Firemen's Relief Association, herein referred to as the New Cumberland 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 New Cumberland Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
New Cumberland Borough	Cumberland	\$ 76,160	\$ 43,194	\$ 49,118

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

New Cumberland Fire Department

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The New Cumberland Volunteer Firefighters' Relief Association has not complied with the following prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Inadequate Minutes of Meetings
- Failure to Maintain A Complete And Accurate Equipment Roster
- Undocumented Expenditure

Although the relief association received reimbursement amounting to \$830 from the affiliated fire company on March 23, 2011 for the undocumented expenditures identified in the prior audit report, a similar condition occurred during the current audit period as disclosed in Finding No. 3 contained in this report.

We are concerned with the volunteer firefighters' relief association's failure to correct the previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: As cited in the 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. In addition, due to the inadequate meeting minutes, we could not determine whether quorum requirements were met to enable the conduct of relief association business. Furthermore, the relief association's minutes only documented one meeting in 2011, two meetings in 2012, and five meetings in 2013, even though the relief association made numerous types of expenditures throughout each year of our 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.

In addition, Article IV, Section 5, of the relief association's bylaws 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.

Furthermore, Article V, Section 4, of the relief association's bylaws state, in part:

Fifteen voting members including the majority of the Board of Directors shall constitute a quorum.

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.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: Officials indicated that it should be noted that the relief association's bylaws require only an annual meeting. Additional meetings are called as needed. In addition, officials contend that the relief association's Board of Directors is granted full power and authority over the affairs of the relief association between membership meetings. Officials also indicated that the relief association recognizes the need to continue to improve the quality of its membership and director's meeting minutes. However, in the past, the relief association has had difficulties recruiting competent persons for the position of Secretary. And, officials contend that the relief association believes that it has improved the financial information provided including finance reports and check registers. At each annual meeting, the members approve an annual spending plan recommended by the Board of Directors. The Board of Directors then manages the spending plan. The Board of Directors will exercise more direct oversight over the minutes of meetings.

Relief association officials also contend that it would also be very helpful if the standard that the meeting minutes "must adequately document the authorization of the expenditures, approval of the association's investments, and all other business conducted at the meetings" was amplified by providing more specific information including samples of minutes that meet or exceed this standard from the Management Guidelines. According to officials, the Management Guidelines do provide samples of documents relating to other standards such as membership, inventory, and financial reports, and, one would assume that over the years, auditors have acquired many examples of good detailed minutes that could be shared with the relief organizations.

Officials also point out that, in this finding, the relief association is advised that they "failed to maintain detailed minutes of meetings" and "did not clearly document the financial-related transactions that occurred." However, no information was provided about the specific shortcomings and the specific changes that would result in minutes that would be sufficiently detailed or clearly documented.

Auditor's Conclusion: We acknowledge that that relief association has taken strides towards improving the quality of its membership meeting minutes provided for 2013. However, additional information was requested from the treasurer, including the annual spending plans/budgets referenced in the response above, so that the reviewer could compare the budgeted expenditures with the actual expenditures made by the relief association during the audit period to evidence that the actual expenditures were approved by the membership. However, the additional documents requested were not provided as of the date of this report. Therefore, the issue remains as stated and compliance will be subject to verification through our next audit.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – 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 officials, again, did not maintain a complete and accurate roster of equipment owned by the relief association. While an improved listing of relief association owned equipment was provided, it continues to be incomplete and does not accurately identify equipment owned by the relief association including road signs, bunker gear storage units and an industrial washer. In addition, 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 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; and
- Evidence of the performance and results of an annual physical inventory.

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

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again recommend 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: Officials indicated that the relief association appreciates the note about the improvement to the relief association's inventory process. The invoices related to the missing items have been identified and the missing items are appropriately being added to the inventory. The NCFD Deputy Chief, Fire has been assigned responsibility for assuring that all appropriate NCVFRA equipment purchased is recorded in our inventory system. This will be coordinated with the NCVFRA Treasurer at the time the payment is made for the equipment purchased. The NCFD Deputy Chief, Fire has also been assigned responsibility for conducting and certifying an annual physical inventory of the relief association owned equipment.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditure

Condition: As disclosed in the Status of Prior Audit Findings section of this report, although the relief association received reimbursement from the affiliated fire company for the undocumented expenditures identified in the prior audit report, a similar condition occurred during the current audit period. The relief association again, was unable to provide adequate supporting documentation for an expenditure amounting to \$500 to a training vendor on January 19, 2013.

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.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Without adequate supporting documentation, such as an invoice, 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: Even though notified of this condition during our prior audit, relief association officials again, neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as an invoice, 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 again recommend the relief association provide this department with adequate supporting documentation, such as an invoice, to ensure the propriety of the expenditure or that the relief association be reimbursed \$500 for the undocumented expenditure. We also recommend that 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.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference, and subsequent to the audit period, on July 7, 2014, the relief association management provided documentation for the identified expenditure.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2011 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	\$ 34,047
Tokens of sympathy and goodwill	339
Total Benefit Services	\$ 34,386
Fire Services:	
Equipment purchased	\$ 72,023
Equipment maintenance	29,894
Training expenses	5,776
Fire prevention materials	10,629
Total Fire Services	\$ 118,322
Administrative Services:	
Other administrative expenses	\$ 11,464
Other Expenditure:	
Undocumented Expenditure	\$ 500

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

New Cumberland Volunteer Firefighters' Relief Association Governing Body:

Mr. Edward J. Erlsten	President
Mr. Keith S. Becker	Vice President
Ms. Linda R. Benson	Secretary
Mr. Dean R. Jury	Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association.

Mr. Stephen C. Sultzaberger Secretary
New Cumberland Borough

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.