

COMPLIANCE AUDIT

Penn Forest Township Volunteer Fire Company No. 2 Relief Association Carbon County, Pennsylvania For the Period January 1, 2012 to December 31, 2013

September 2014



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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. David Vukovic, President
PENN FOREST NO. 2 VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Carbon County

We have conducted a compliance audit of the Penn Forest No. 2 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, 2012 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 Penn Forest No. 2 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 Penn Forest No. 2 Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Penn Forest No. 2 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, 2012 to December 31, 2013, found the Penn Forest No. 2 Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the three findings contained in our prior audit report. However, the Penn Forest No. 2 Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Penn Forest No. 2 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-
Unauthorized Expenditures

Finding No. 2 – Untimely Deposit of State Aid

The results of our tests also indicated the Penn Forest No. 2 Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$30,255 and no investments.

The contents of this report were discussed with the management of the Penn Forest No. 2 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

September 15, 2014

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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 Penn Forest Township Volunteer Fire Company No. 2 Relief Association, herein referred to as the Penn Forest No. 2 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 Penn Forest No. 2 Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2012</u>	<u>2013*</u>
Penn Forest Township	Carbon	\$39,888	\$43,909

* The 2013 state aid allocation received from Penn Forest Township was not deposited until February 7, 2014 as disclosed in Finding No. 2 contained in this report.

The volunteer firefighters’ relief association and the affiliated fire service organization are separate, legal entities. The Penn Forest No.2 Volunteer Firefighters’ Relief Association is affiliated with the following fire service organization:

Penn Forest Township Volunteer Fire Company No. 2

PENN FOREST NO .2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Penn Forest No.2 Volunteer Firefighters' Relief Association has complied with two of the three prior audit findings and recommendations, as follows:

- Failure To Maintain Minutes of Meetings

By maintaining minutes of all relief association meetings held during the current period; and

- Insufficient Surety (Fidelity) Bond Coverage

By increasing the bond coverage to an amount greater than the balance of the relief association's cash assets.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Penn Forest No. 2 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 Findings and Recommendations section of this report:

- Unauthorized Expenditures

Although the relief association received reimbursement from the affiliated fire company for the unauthorized expenditures made during the prior audit period, a similar condition occurred during the current audit period as disclosed in Finding No. 1 contained in this report.

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.

PENN FOREST NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures

Condition: As cited in the Status of Prior finding section of this report, although the relief association received reimbursement from the affiliated fire company for the unauthorized expenditures made during the prior audit period, a similar condition occurred during the current audit period. The relief association again, expended funds for the following items during the current audit period that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
10/08/2012	972	Dress uniforms	\$ 2,138
02/03/2013	990	Fire company insurance premium	2,957
Total			<u>\$ 5,095</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(2, 11) states:

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

- (2) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

PENN FOREST NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Costs associated with the purchase of dress uniforms and the purchase of fire company insurance not for the benefit of members, do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Even though notified of this condition during our prior audit, relief association officials again, neglected the fact that the 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.

Recommendation: We again 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 May 6, 2014 and May 14, 2014, the relief association received reimbursement of \$2,138 and \$2,957, respectively, from the Penn Forest Volunteer Fire Company No. 2 for the unauthorized expenditures..

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.

Finding No. 2 – Untimely Deposit Of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2013 state aid allocation it received from Penn Forest Township, in the amount of \$43,909, until February 7, 2014. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 27, 2013, who forwarded this state aid to the volunteer firefighters' relief association on November 4, 2013, 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, the original check was misplaced and a replacement check was re-issued by the municipality and forwarded to the relief association on January 4, 2014, for deposit into a relief association account on February 7, 2014.

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2013	Penn Forest Township	\$43,909	November 4, 2013	February 7, 2014

PENN FOREST NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 adequate internal control procedures which require that all income received be recorded and deposited in a timely manner. As previously mentioned, the original allocation check was misplaced by the relief association and a replacement check had to be re-issued from the municipality.

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.

Recommendation: We recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all 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: Compliance will be subject to verification through our next audit.

PENN FOREST NO. 2 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	\$ 17,563
Relief benefits	150
Total Benefit Services	<u>\$ 17,713</u>
Fire Services:	
Equipment purchased	\$ 101,125
Equipment maintenance	9,973
Training expenses	4,770
Fire prevention materials	1,436
Total Fire Services	<u>\$ 117,304</u>
Administrative Services:	
Other administrative expenses	<u>\$ 1,896</u>

PENN FOREST NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Penn Forest No. 2 Volunteer Firefighters' Relief Association Governing Body:

Mr. David Vukovic	President
Mr. Michael Wasson	Vice President
Mr. Jordan Newbern	Secretary
Mr. David Michael III	Treasurer

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

Ms. Mary Ann Lewellyn Secretary
Penn Forest 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.