



UTICA VOLUNTEER FIREFIGHTERS
RELIEF ASSOCIATION

VENANGO COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2011

RELEASED DECEMBER 2013

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
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. William Henze, President
UTICA VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Venango County

We have conducted a compliance audit of the Utica 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, 2009 to December 31, 2011.

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 Utica 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 Utica Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Utica Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, 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, 2009 to December 31, 2011, found the Utica Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this report. In addition, the results of our audit found the Utica 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 in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Utica Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$11,412 and no investments.

Finding No. 1 – Noncompliance with Prior Audit Recommendation –
Inadequate Relief Association Bylaws and Constitution

Finding No. 2 – Failure to Conduct Annual Physical Inventories of Volunteer
Firefighters' Relief Association Equipment

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

May 20, 2013



EUGENE A. DEPASQUALE
Auditor General

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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 Utica Volunteer Firefighters Relief Association, herein referred to as Utica 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. The Utica Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

| <u>Municipality</u> | <u>County</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
|----------------------|---------------|-------------|-------------|-------------|
| Canal Township | Venango | \$4,994 | \$5,621 | \$8,777 |
| Frenchcreek Township | Venango | \$2,829 | \$3,185 | \$4,791 |
| Utica Borough | Venango | \$ 902 | \$1,015 | \$1,455 |

BACKGROUND (Continued)

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

Utica Volunteer Fire Company

UTICA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Utica Volunteer Firefighters' Relief Association has not complied with the following prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws and Constitution

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

UTICA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws and Constitution

Condition: As cited in our prior two audit reports, the existing bylaws of the Utica Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not address the quorum requirements for the meetings and the procedures to be followed in nominating and electing officers, trustees, directors and members of the executive committee. In addition, the bylaws do not establish procedures for the investment of funds and the sales of investments.

During our prior audit, in addition to the bylaws described above, the relief association provided a document on Utica Fire Company letterhead entitled Utica Volunteer Fire Company and Relief Association Constitution. Although the constitution provided does address the procedure for nominating and electing officers, it appears that the constitution is that of an organization encompassing the Utica Volunteer Fire Company, Ladies Auxiliary, Ambulance Association and Fire Police. The constitution does not clearly distinguish and provide the relief association as an entity separate and distinct from these other organizations.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(1, 2 &3) states, that the relief association's bylaws shall:

- (1) State the notice requirements and procedure to be followed in calling meetings, as well as quorum requirements for regular and special meetings of the membership and for regular and special meetings of the body which governs the operations of the association between membership meetings, and shall designate that body, whether it be a board of directors, trustees or any similar body such as an executive committee. Unless otherwise provided for in the bylaws, powers and duties of officers, directors and trustees shall be those which normally pertain to such positions in nonprofit corporations.
- (2) State the procedure to be followed in nominating and in electing officers, trustees, directors, and members of the executive committee, according to the provisions which have been made for establishment of those positions.
- (3) Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.

UTICA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 1 – (Continued)

Furthermore, the relief association bylaws should authorize and clearly specify the criteria to be met before receiving death or relief benefits and the amount of any benefit payments. In addition, the bylaws should address the authorization of compensation to relief association officers.

Cause: Even though notified of this condition during our prior two audits, relief association officials, again, neglected to amend the relief association bylaws to meet the bylaw provisions required by Act 118.

Effect: Including the relief associations' and other organizations' operating procedures within the same bylaws or constitution causes confusion and does not present the organizations as separate legal entities, independent of one another. As a result of the constitution encompassing the relief association and the other organizations previously listed, and the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization. In addition, the inadequate bylaws increase the likelihood that relief association assets are not adequately protected and could become commingled with those of another organization.

However, as a result of our audit, and subsequent to the audit period, in March 2013, the relief association provided updated bylaws which satisfied the quorum requirement; however, the other issues noted above remain unresolved, and were not addressed in the amended bylaws provided by the relief association.

Recommendation: We, again, recommend that relief association officials review and update the constitution and bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of the relief association and clearly separate and distinguish the operations of the relief association from the other organizations. 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.

UTICA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Failure to Conduct Annual Physical Inventories of Volunteer Firefighters' Relief Association Equipment

Condition: As verbally cited during our prior audit, relief association officials, again, failed to conduct annual physical inventories of equipment and to ensure such inventory accounted for all of the relief association's equipment.

Criteria: Prudent business practice dictates 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: While a complete roster of relief association owned equipment was provided, there was no indication that an annual physical inventory of equipment was performed to account for the relief association's equipment.

Effect: The failure to perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We, again, recommend that the relief association officials ensure they perform annual physical inventory of all operable equipment and that the completion of the inventories 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.

UTICA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2011

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 | \$ 5,512 |
| Total Benefit Services | \$ 5,512 |
| | |
| Fire Services: | |
| Equipment purchased | \$ 21,022 |
| Equipment maintenance | 2,667 |
| Training expenses | 759 |
| Fire prevention materials | 887 |
| Total Fire Services | \$ 25,335 |
| | |
| Administrative Services: | |
| Other administrative expenses | \$ 597 |
| Total Administrative Services | \$ 597 |

UTICA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Utica Volunteer Firefighters' Relief Association Governing Body:

Mr. William Henze, President

Mr. Danny Metz, Vice President

Ms. Vicki Clark, Secretary

Ms. Cindy Dailey, Treasurer

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

Ms. Diane McCall, Secretary
Canal Township

Ms. Carrie Voit-Hovis, Secretary
Frenchcreek Township

Ms. Diane Prusaczyk, Secretary
Utica 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.