

COMPLIANCE AUDIT

The New Albany Volunteer Fire Relief Association of The State of Pennsylvania Bradford County For the Period January 1, 2010 to December 31, 2013

July 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Dale Hatch, President
NEW ALBANY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Bradford County

We have conducted a compliance audit of the New Albany 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 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 New Albany 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 Albany 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 Albany 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, 2010 to December 31, 2013, found the New Albany 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 New Albany Volunteer Firefighters' Relief Association did not in all significant respects, receive state aid and expend state aid and accumulate relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the finding listed below and discussed later in this report. Therefore, the New Albany Volunteer Firefighters' Relief Association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation-
Untimely Deposit Of State Aid

Finding No. 2 – Inappropriate Ownership of Rescue Vehicles

The results of our tests also indicated the New Albany Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$11,564 and no investments.

Furthermore, a scope limitation on our audit exists, as detailed in the Observation section of this report.

The contents of this report were discussed with the management of the New Albany 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.

May 21, 2015

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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 New Albany Volunteer Fire Relief Association Of The State Of Pennsylvania, herein referred to as the New Albany 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 Albany 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>
Albany Township	Bradford	\$ 5,851	\$9,065	\$ 5,182	\$5,503*
New Albany Borough	Bradford	\$ 1,491	\$2,511	\$1,427**	\$1,615**
Overton Township	Bradford	\$1,000***	\$2,220	\$ 1,000	\$1,595***
Terry Township	Bradford	\$ 2,093	\$3,294	\$ 1,887	\$ 2,159

*The 2013 state aid allocation received from Albany Township was not deposited by the New Albany Volunteer Firefighters’ Relief Association until January 13, 2014, as disclosed in Finding No. 1 in this report.

**The 2012 and 2013 state aid allocations received from New Albany Borough were not deposited by the New Albany Volunteer Firefighters’ Relief Association until February 8, 2013 and February 6, 2014, respectively, as disclosed in Finding No. 1 in this report.

***The 2010 and 2013 state aid allocations received from Overton Township were not deposited by the New Albany Volunteer Firefighters’ Relief Association until June 12, 2012 and January 13, 2014, respectively, as disclosed in Finding No. 1 in this report.

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

New Albany Volunteer Fire Company

NEW ALBANY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Untimely Deposit Of State Aid

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.

NEW ALBANY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation-Untimely Deposit Of State Aid

Condition: As cited in our prior audit report, the volunteer firefighters' relief association again did not deposit the state aid allocations it received from the following municipalities in a timely manner as disclosed in the table below. The foreign fire insurance tax allocation was distributed to the municipal treasurers at the end of September in each of the audit years, who forwarded the state aid allocations to the volunteer firefighters' relief association on the dates listed below, which are all within 60 days of receipt as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Upon receipt of the state aid allocations, the relief association should ensure that the funds are deposited in a timely manner.

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2010	Overton Township	\$1,000	10/04/10	06/12/12
2012	New Albany Borough	\$1,427	11/01/12	02/08/13
2013	Albany Township	\$5,503	12/04/13	01/13/14
2013	New Albany Borough	\$1,615	11/12/13	02/06/14
2013	Overton Township	\$1,595	11/03/13	01/13/14

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 practices dictate 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: Even though notified of this condition during our prior audit, relief association officials again failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner.

NEW ALBANY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1– (Continued)

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 again recommend that 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report. Compliance will be subject to verification through our next audit.

Finding No. 2 – Inappropriate Ownership Of Rescue Vehicle

Condition: On January 10, 2011, the relief association purchased a RTV, in the amount of \$13,313, to carry personnel and safeguard equipment; however, the title to the vehicle was inappropriately issued in the name of the fire company. On July 8, 2011, the relief association purchased a trailer in the amount of \$1,729 to be used to haul the RTV and did not provide a copy of the title.

Criteria: Prudent business practice dictates that the relief association should maintain sole ownership of all equipment purchased by the relief association. As such, rescue vehicles purchased by the relief association are to be titled in the name of the relief association.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that the rescue vehicles purchased were titled in the name of the relief association.

Effect: As a result of the rescue vehicles being inappropriately titled in the name of the fire company, the relief association assets were not properly safeguarded. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

NEW ALBANY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the rescue vehicle be titled in the name of the relief association. 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: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

NEW ALBANY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Scope Limitation

The New Albany Volunteer Firefighters' Relief Association (VFRA) does not maintain canceled or imaged checks. While the VFRA provided bank statements, the VFRA failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we could not determine whether two VFRA officers authorized and signed the checks.

Act 118 at 35 Pa.C.S. § 7415(c)(3) requires that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

Act 118 at 35 Pa.C.S. § 7418(a) provides that the Department of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association . . . 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.

Generally Accepted Government Auditing Standards (GAGAS) Section No. 6.56 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 6.61(f) states, "Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity."

Our inability to review canceled or imaged checks constitutes a scope limitation on our audit.

NEW ALBANY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

NEW ALBANY 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	\$ 12,240
Relief benefits	210
Tokens of sympathy and goodwill	434
Total Benefit Services	\$ 12,884
Fire Services:	
Equipment purchased	\$ 36,962
Equipment maintenance	3,981
Training expenses	30
Total Fire Services	\$ 40,973
Administrative Services:	
Other administrative expenses	\$ 102
Total Investments Purchased	\$ 20,000

NEW ALBANY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

New Albany Volunteer Firefighters' Relief Association Governing Body:

Mr. Dale Hatch	President
Mr. David Hindman	Vice President
Ms. Connie Green	Secretary
Ms. Susan Hinkson	Treasurer

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

Ms. Andrae Cummiskey Albany Township	Secretary
Mr. Duane Clark New Albany Borough	Secretary
Ms. Michelle McGroarty Overton Township	Secretary
Ms. Stacy J. Hart Terry Township	Secretary

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.