

COMPLIANCE AUDIT

Cochranton Volunteer Fire Department's Relief Association Crawford County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

September 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Shane Neff, President
Cochranton Volunteer Fire Department's
Relief Association
Crawford County

We have conducted a compliance audit of the Cochranton Volunteer Fire Department's Relief Association (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, 2014 to December 31, 2017.

The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective identified above and was not required to be and was not conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the 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. Relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, because of the significance of the matter described in the findings below and discussed later in this report, the relief association did not, in all significant respects, comply with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, collectively as a whole, for the period January 1, 2014 to December 31, 2017. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Failure To Maintain A Complete And Accurate Equipment Roster

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with the management of the relief association and, where appropriate, their responses have been included in the report.

August 23, 2018



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 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 volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct 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 relief associations 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 that is or are recognized as providing the service to the municipality.

BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Cochranton Borough	Crawford	\$5,548	\$5,299	\$5,272	\$4,800
East Fairfield Township	Crawford	\$5,342	\$5,060	\$5,028	\$4,603
Fairfield Township	Crawford	\$6,028	\$5,693	\$5,656	\$5,109*
Wayne Township	Crawford	\$8,790	\$8,522	\$8,448	\$7,687
French Creek Township	Mercer	\$4,345	\$4,145	\$4,132	\$3,763

* Although Fairfield Township prepared and returned a Certification Form AG 385 for 2017 by the March 31 annual filing date in accordance with Act 205, the township did not distribute the 2017 state aid to the relief association in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 25, 2017, who forwarded this state aid to the relief association on December 29, 2017, which is not 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, upon receipt of the state aid allocation, the relief association deposited the funds on January 23, 2018, into a relief association account. Also, the township’s Receipt and Distribution of Foreign Fire Insurance Premium Tax Form 706-B was not received by this department until January 29, 2018.

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

Cochranton Volunteer Fire Department

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

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

Date	Check No.	Payee Description	Amount
01/05/2014	800	Training vendor	\$ 35
01/07/2014	801	Equipment vendor	537
01/07/2014	802	Insurance vendor	250
01/07/2014	803	Administrative vendor	600
01/07/2014	804	Administrative vendor	600
01/07/2014	805	Training vendor	75
01/13/2014	806	Equipment vendor	330
01/27/2014	807	Equipment vendor	530
01/27/2014	808	Equipment vendor	145
01/27/2014	809	Maintenance vendor	904
01/27/2014	810	Equipment vendor	2,876
02/05/2014	811	Equipment vendor	1,392
02/05/2014	812	Training vendor	450
02/19/2014	813	Equipment vendor	12,177
02/19/2014	814	Equipment vendor	1,110
02/19/2014	815	Equipment vendor	645
02/26/2014	816	Training vendor	300
02/26/2014	817	Training vendor	1,260
02/27/2014	820	Equipment vendor	457
02/28/2014	821	Equipment vendor	504
03/12/2014	818	Training vendor	252
03/18/2014	819	Insurance vendor	213
03/20/2014	822	Equipment vendor	710
03/20/2014	823	Maintenance vendor	250
03/20/2014	824	Equipment vendor	833
03/21/2014	825	Maintenance vendor	44
03/27/2014	826	Equipment vendor	1,817
04/01/2014	827	Equipment vendor	540
04/28/2014	828	Training vendor	504
05/01/2014	829	Training vendor	120
05/12/2014	830	Maintenance vendor	1,300
05/17/2014	831	Equipment vendor	11,615
05/22/2014	832	Equipment vendor	458
05/27/2014	833	Training vendor	359

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Date	Check No.	Payee Description	Amount
06/12/2014	834	Training vendor	\$ 150
06/30/2014	835	Equipment vendor	2,844
06/30/2014	836	Equipment vendor	45
06/30/2014	837	Equipment vendor	14,059
07/21/2014	838	Maintenance vendor	248
07/28/2014	839	Equipment vendor	235
07/31/2014	840	Equipment vendor	5,619
08/06/2014	841	Training vendor	20
08/14/2014	843	Training vendor	690
08/21/2014	844	Equipment vendor	398
08/23/2014	845	Equipment vendor	24
09/15/2014	846	Training vendor	72
09/22/2014	847	Administrative vendor	340
10/06/2014	848	Maintenance vendor	57
10/18/2014	849	Maintenance vendor	675
10/25/2014	850	Maintenance vendor	106
10/29/2014	851	Training vendor	120
10/29/2014	852	Maintenance vendor	913
11/15/2014	853	Equipment vendor	410
11/21/2014	854	Maintenance vendor	147
11/29/2014	855	Maintenance vendor	99
11/29/2014	856	Maintenance vendor	205
12/02/2014	857	Training vendor	400
12/13/2014	858	Equipment vendor	21
12/13/2014	859	Equipment vendor	1,608
12/19/2014	860	Equipment vendor	3,262
12/20/2014	861	Training vendor	30
12/20/2014	862	Equipment vendor	830
12/25/2014	863	Equipment vendor	908
12/30/2014	864	Equipment vendor	1,828
12/31/2014	865	Equipment vendor	1,145
02/08/2015	884	Training vendor	326
05/06/2015	906	Maintenance vendor	416
05/02/2015	915	Equipment vendor	5,100
07/03/2015	919	Training vendor	1,781
08/17/2015	922	Training vendor	645
Total			<u>\$ 89,968</u>

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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), 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 and/or itemized receipts, 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, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were 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. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$89,968 for the undocumented expenditures. 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 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.

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association 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>
01/05/16	944	Administrative expense (salary)	600
01/05/16	946	Administrative expense (salary)	\$ 600
07/31/17	988	Fire company maintenance expense	99
Total			<u>\$ 1,299</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1) states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

Costs associated with salaries to non-approved officers and maintenance on a fire company vehicle do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118 or the relief association's bylaws.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118 or the relief association's bylaws.

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 recommend that the relief association be reimbursed \$1,299 for the unauthorized expenditures and that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of future expenditures. In addition, if the relief association intends to pay officer compensation to officers other than the treasurer and secretary, the relief association's bylaws should be amended to reflect this benefit. 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.

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided for 2014 and 2015, this listing was incomplete and did not accurately identify all of the equipment purchased in 2016 and 2017. The relief association purchased \$49,920 of equipment during 2016 and 2017 that was not properly accounted for on the relief association's equipment roster. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

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 all of 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
- Evidence of the performance and results of an annual physical inventory

Cause: Relief association officials failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The 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.

Recommendation: We recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. 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.

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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.

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 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 may 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 relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 24,520
Fair Value of Investments	<u>111,790</u>
Total Cash and Investments	<u>\$ 136,310</u>

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 20,879
Fire Services:	
Equipment purchased	\$ 124,015
Equipment maintenance	17,876
Training expenses	7,005
Fire prevention materials	2,586
Total Fire Services	\$ 151,482
Administrative Services:	
Officer compensation	\$ 2,400
Other administrative expenses	7,381
Bond premiums	660
Total Administrative Services	\$ 10,441
Other Expenditures:	
Undocumented expenditures	\$ 89,968
Unauthorized expenditures	1,299
Total Other Expenditures	\$ 91,267
Total Expenditures	\$ 274,069

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Cochranton Volunteer Fire Department's Relief Association Governing Body:

Mr. Shane Neff
President

Ms. Shanna J. Bresee
Treasurer

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

Ms. Barbara Opatrny
Secretary
Cochranton Borough

Ms. Susan Blose
Secretary
East Fairfield Township

Ms. Amanda Allen
Secretary
Fairfield Township

Ms. Mary Kennedy
Secretary
Wayne Township

Ms. Sherian E. Biggs
Secretary
French Creek Township

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
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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.