

# COMPLIANCE AUDIT

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## Community Fire Company of Cornwall Borough Volunteer Firefighters' Relief Association

Lebanon County, Pennsylvania

For the Period

January 1, 2016 to December 31, 2017

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June 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Perry Gernert, President  
Community Fire Company of Cornwall  
Borough Volunteer Firefighters'  
Relief Association  
Lebanon County

We have conducted a compliance audit of the Community Fire Company of Cornwall Borough Volunteer Firefighters' 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, 2016 to December 31, 2017.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding contained in our prior audit report.
2. 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 objectives 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 objectives. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, for the period January 1, 2016 to December 31, 2017:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- 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. Therefore, the 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 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Finding No. 2 – Undocumented Expenditure

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. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

June 21, 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2016</u>	<u>2017</u>
Cornwall Borough	Lebanon	\$31,666	\$28,718

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:

Community Fire Company of Cornwall Borough

COMMUNITY FIRE COMPANY OF CORNWALL BOROUGH VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

COMMUNITY FIRE COMPANY OF CORNWALL BOROUGH VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle**

Condition: On October 15, 2015, the relief association membership approved a joint purchase with the affiliated fire company towards a new engine. The membership approved a down payment of \$20,000 and six yearly payments of \$15,000. The relief association expended \$20,000 on May 5, 2016 as the down payment and, on December 5, 2016, expended \$15,000 as their yearly payment for the purpose of jointly purchasing the vehicle with the affiliated fire company. However, the relief association did not adequately secure its ownership interest in this jointly purchased vehicle as the vehicle was titled solely in the name of the affiliated fire company.

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.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold.

Cause: Relief association officials failed to adequately secure its proportional ownership interest in the jointly purchased vehicle.

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicle places the relief association's ownership interest at greater risk. 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 execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$35,000 for the amount disbursed to the fire company as of December 31, 2017. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.



COMMUNITY FIRE COMPANY OF CORNWALL BOROUGH VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (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: 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.

**Finding No. 2 – Undocumented Expenditure**

Condition: The relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$646 to Lebanon County Firefighters' Association on April 12, 2016.

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 an invoice and/or itemized receipt, 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 an invoice and/or itemized receipt, 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.

COMMUNITY FIRE COMPANY OF CORNWALL BOROUGH VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as an invoice and/or itemized receipt, to ensure the propriety of the expenditure or that the relief association be reimbursed \$646 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 indicated they will take action to comply with the recommendation.

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

COMMUNITY FIRE COMPANY OF CORNWALL BOROUGH VOLUNTEER  
FIREFIGHTERS' 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.

COMMUNITY FIRE COMPANY OF CORNWALL BOROUGH VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH BALANCE  
AS OF DECEMBER 31, 2017

Cash	<u>\$ 22,941</u>
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COMMUNITY FIRE COMPANY OF CORNWALL BOROUGH VOLUNTEER  
 FIREFIGHTERS' RELIEF ASSOCIATION  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:

Insurance premiums	\$ 27,070
Relief benefits	109
Tokens of sympathy and goodwill	62
Total Benefit Services	<u>\$ 27,241</u>

Fire Services:

Equipment purchased	\$ 27,795
Equipment maintenance	1,829
Training expenses	3,315
Total Fire Services	<u>\$ 32,939</u>

Administrative Services:

Other administrative expenses	\$ 2,946
Bond premiums	348
Total Administrative Services	<u>\$ 3,294</u>

Other Expenditures:

Payments on loan	\$ 35,000
Undocumented expenditure	646
Total Other Expenditures	<u>\$ 35,646</u>

Total Expenditures	<u><u>\$ 99,120</u></u>
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COMMUNITY FIRE COMPANY OF CORNWALL BOROUGH VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Community Fire Company of Cornwall Borough Volunteer Firefighters' Relief Association  
Governing Body:

**Mr. Perry Gernert**  
President

**Mr. Jeffrey Starner**  
Secretary

**Mr. Jared Kreiser**  
Treasurer

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

**Mr. Steve Danz**  
Secretary  
Cornwall Borough

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).