

COMPLIANCE AUDIT

Delmont Volunteer Firemen's Relief Association of Delmont, Pennsylvania Westmoreland County For the Period January 1, 2016 to December 31, 2017

January 2019



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



Commonwealth of Pennsylvania
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Donald Lee Cline, President
Delmont Volunteer Firemen's Relief
Association of Delmont, Pennsylvania
Westmoreland County

We have conducted a compliance audit of the Delmont Volunteer Firemen's Relief Association of Delmont, Pennsylvania (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 findings 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 one of the three findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- The relief association, in all significant respects, 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, except as noted in the findings listed below and discussed later in this report.


Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditure

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure
To Maintain Surety (Fidelity) Bond Coverage

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 has 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.

January 9, 2019


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>
Delmont Borough	Westmoreland	\$15,043	\$13,825

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:

Delmont Volunteer Fire Department

DELMONT VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF DELMONT,
PENNSYLVANIA
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with one of the three of prior audit findings and recommendations, as follows:

- Inadequate Signatory Authority For The Disbursement Of Funds

By requiring more than one signature on all negotiable instruments.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with two of the three prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Undocumented Expenditure

Although the relief association received reimbursement of \$10,711 from the affiliated fire company for the undocumented expenditures that were made in the prior audit period, the relief association again failed to provide adequate documentation to support all expenditures in the current audit period as further disclosed in Finding No. 1 of this report.

- Failure To Maintain Surety (Fidelity) Bond Coverage

We are concerned by the relief association's failure to correct those previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

DELMONT VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF DELMONT,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendations – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$3,000 to the Delmont Volunteer Fire Department on February 9, 2016.

A similar condition was noted in our prior audit report.

Criteria: Section 7418(a) of Act 118 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: Even though notified of this condition during our prior audit, relief association officials again neglected 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 Section 7416(f) of Act 118. 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.

Recommendation: We again 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.

DELMONT VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF DELMONT,
PENNSYLVANIA
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, as a result of our audit, on November 29, 2018, the affiliated fire company reimbursed the relief association \$3,000 for the undocumented expenditure.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$3,000 was received. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: The relief association again failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer during the audit period, as required by Act 118. In particular, the relief association had no bond coverage on its authorized disbursing officer from May 16, 2015 until May 25, 2017. As of December 31, 2017, the relief association's cash assets totaled \$15,548.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(c)(4) of Act 118 states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to comply with the Act 118 provisions requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer.

Effect: As a result of the authorized disbursing officer of the relief association not being bonded, the relief association's cash assets were not adequately safeguarded.

DELMONT VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF DELMONT,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again recommend that the relief association officials maintain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by Act 118. 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, as a result of our prior audit recommendation, on May 25, 2017, the relief association purchased bond coverage in an amount greater than the relief association's maximum cash balance.

Auditor's Conclusion: We reviewed documentation verifying that bond coverage was obtained on May 25, 2017. Compliance for maintaining bond coverage during the next audit period will be subject to verification through our next audit.

DELMONT VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF DELMONT,
PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2017

Cash	<u>\$ 15,548</u>
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DELMONT VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF DELMONT,
PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	<u>\$ 20,245</u>
Fire Services:	
Equipment purchased	\$ 672
Equipment maintenance	7,125
Training expenses	<u>453</u>
Total Fire Services	<u>\$ 8,250</u>
Administrative Services:	
Other administrative expenses	\$ 277
Bond premiums	<u>652</u>
Total Administrative Services	<u>\$ 929</u>
Other Expenditures:	
Undocumented expenditure	<u>\$ 3,000</u>
Total Expenditures	<u><u>\$ 32,424</u></u>

DELMONT VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF DELMONT,
PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Delmont Volunteer Firemen's Relief Association of Delmont, Pennsylvania Governing Body:

Mr. Donald Lee Cline
President

Mr. Richard M. Balik, Jr.
Treasurer

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

Ms. Kellie E. Miele
Secretary
Delmont Borough

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.