

COMPLIANCE AUDIT

Dillsburg Firefighter's Relief Association York County, Pennsylvania For the Period January 1, 2012 to December 31, 2015

January 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Carlos Trump, President
Dillsburg Firefighter's Relief Association
York County

We have conducted a compliance audit of the Dillsburg Firefighter'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, 2012 to December 31, 2015.

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 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.

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, 2012 to December 31, 2015:

- The 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.
- The 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 later in this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Insufficient Surety (Fidelity) Bond Coverage

Finding No. 2 – Failure To Maintain A Complete And Accurate Equipment
Roster

Finding No. 3 – Untimely Deposit Of State Aid

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.

January 27, 2017



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. The relief association's bylaws define the specific operational procedures by which the 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 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 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Carroll Township	York	\$18,770*	\$21,509*	\$20,480	\$19,862
Dillsburg Borough	York	\$15,442*	\$17,346*	\$16,501	\$15,693
Franklin Township	York	\$ 7,385*	\$ 8,360*	\$ 7,946*	\$ 7,637

* The 2012 and 2013 state aid allocations received from Carroll Township and Dillsburg Borough were not deposited by the relief association until February, 16, 2013 and January 13, 2014. In addition, the 2012, 2013 and 2014 state aid allocations received from Franklin Township were also not deposited until February 16, 2013, May 2, 2014 and February 10, 2015, respectively, as disclosed in Finding No. 3 in this report.

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The relief association is affiliated with Citizen's Hose Company No. 1.

During the conduct of our audit of the relief association, officials indicated that the relief association is considering a merger with another volunteer firefighter's relief association as a result of financial and manpower constraints. Prudent business practice dictates that relief associations contemplating dissolution should consider retaining legal counsel to provide assurance that the dissolution complies with applicable laws and regulations governing non-profit charitable organizations and that all benefits owed to active and former association members are maintained and protected. In addition, if this is the case, the remaining relief association members should conduct a meeting to approve the dissolution of the association and the disposition of its assets. In most circumstances, all relief association-owned equipment and monetary assets of the dissolving relief association are to be transferred to the new relief association affiliated with the volunteer fire company that is reestablished as a result of the merger. Moreover, relief association officials should contact this department in preparation of a final audit of the relief association and perform the following:

- The relief association should provide full documentation of the monetary assets and equipment being transferred. A complete inventory of all equipment should be performed and a listing of the equipment transferred should be completed.
- Upon transfer of the equipment, a signed receipt from the relief association receiving the equipment should be obtained to verify items of equipment transferred. Those items of equipment then become assets of the recipient relief association and should be added to that relief association's equipment roster.

We will verify the receipt of the equipment and monetary assets transferred through an audit of the recipient association. However, as of the date of this report, the relief association has not made a formal commitment to dissolve and merge with another relief association.

DILLSBURG FIREFIGHTER'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The 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:

- Insufficient Surety (Fidelity) Bond Coverage

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.

DILLSBURG FIREFIGHTER'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$100,000; however, as of December 31, 2015, the relief association's cash assets totaled \$110,407. A similar condition was noted in our prior audit report.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) 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 monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

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

Recommendation: We again recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

DILLSBURG FIREFIGHTER'S 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 subsequent to the audit, on January 11, 2017, the relief association increased their bond coverage to an amount greater than the maximum balance of the relief association's cash assets.

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

Finding No. 2 – 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 during the current audit period, it was incomplete because it did not contain the names of suppliers (vendors), dates of purchase and cost of equipment to accurately identify equipment owned by the relief association. As such, we were unable to determine if all of the equipment purchased during the current audit period amounting to \$76,533 was recorded. 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.

DILLSBURG FIREFIGHTER'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference, and subsequent to the audit period, on January 9, 2017, the relief association provided an updated equipment roster detailing all of the equipment purchased during the audit period.

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

Finding No. 3 – Untimely Deposit Of State Aid

Condition: The relief association did not deposit the state aid allocations it received from the various funding municipalities during the current audit period in a timely manner, as follows:

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2012	Carroll Township	\$ 18,770	10/09/12	02/16/13
2012	Dillsburg Borough	\$ 15,442	10/10/12	02/16/13
2012	Franklin Township	\$ 7,385	10/09/12	02/16/13
2013	Carroll Township	\$ 21,509	10/16/13	01/13/14
2013	Dillsburg Borough	\$ 17,346	10/09/13	01/13/14
2013	Franklin Township	\$ 8,360	11/13/13	05/02/14
2014	Franklin Township	\$ 7,946	11/12/14	02/10/15

Upon receipt of the state aid allocations, the relief association should ensure the funds are deposited into a relief association account a timely manner.

DILLSBURG FIREFIGHTER'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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: Relief association officials failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner.

Effect: As a result of the untimely deposits, funds were not available to pay general operating expenses or for investment purposes. In addition, untimely deposits of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely deposit of all future 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: Compliance will be subject to verification through our next audit.

DILLSBURG FIREFIGHTER'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2015

Cash	\$ 110,407
Fair Value of Investments	<u>37,052</u>
Total Cash and Investments	<u>\$ 147,459</u>

DILLSBURG FIREFIGHTER'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:	
Insurance premiums	\$ 39,544
Tokens of sympathy and goodwill	55
Total Benefit Services	<u>\$ 39,599</u>
Fire Services:	
Equipment purchased	\$ 76,533
Equipment maintenance	22,361
Training expenses	11,900
Total Fire Services	<u>\$ 110,794</u>
Administrative Services:	
Other administrative expenses	\$ 4,436
Bond premiums	968
Total Administrative Services	<u>\$ 5,404</u>
Total Investments Purchased	<u>\$ 39,041</u>
Total Expenditures	<u><u>\$ 194,838</u></u>

DILLSBURG FIREFIGHTER'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Dillsburg Firefighter's Relief Association Governing Body:

Mr. Carlos Trump
President

Mr. Hector Morales
Vice President

Mr. Donald Hefflefinger, Jr.
Secretary

Mr. Scott McClintock
Treasurer

Mr. Robert Kauffman
Trustee

Mr. Dean Trump
Trustee

Mr. Richard Wirt
Trustee

DILLSBURG FIREFIGHTER'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Ms. Faye L. Romberger
Secretary
Carroll Township

Ms. Debbie Beitzel
Secretary
Dillsburg Borough

Ms. Nancy Zentmeyer
Secretary
Franklin Township

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.