

COMPLIANCE AUDIT

The Ephrata Firefighters Relief Association of the Pioneer Steam Fire Engine Company No. 1 of Ephrata, Pennsylvania

Lancaster County

For the Period

January 1, 2016 to December 31, 2017

July 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. James Keifer, President
The Ephrata Firefighters Relief
Association of the Pioneer
Steam Fire Engine Company
No. 1 of Ephrata, Pennsylvania
Lancaster County

We have conducted a compliance audit of The Ephrata Firefighters Relief Association of the Pioneer Steam Fire Engine Company No. 1 of Ephrata, 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 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, for the period January 1, 2016 to December 31, 2017, 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 – Unauthorized Expenditure

Finding No. 2 – 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. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

July 16, 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>2016</u>	<u>2017</u>
Ephrata Borough	Lancaster	\$52,471	\$47,912
Ephrata Township	Lancaster	\$28,536	\$26,845

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:

Pioneer Steam Fire Engine Company No. 1, of Ephrata, Pennsylvania

THE EPHRATA FIREFIGHTERS RELIEF ASSOCIATION OF THE PIONEER STEAM FIRE
ENGINE COMPANY NO. 1 OF EPHRATA, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditure

Condition: The relief association expended \$22,858 for the affiliated fire company's insurance policy during the current audit period that is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(2, 4 and 8) states:

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

- (2) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of the member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.
- (4) To pay in full or in part for damage or loss in any of the categories mentioned in paragraph (2) in a specific case where: (i) no policy of insurance is in force covering the risk; or (ii) the amount payable under insurance policies in force is inadequate to cover the loss.
- (8) To contribute to or to purchase contracts of insurance which will contribute to the cost of rehabilitating and retraining volunteer firefighters who, by reason of their participation in the fire service, have suffered a major impairment of the ability to continue their vocation.

Costs associated with the affiliated fire company's insurance policy do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials indicated that the insurance policy of the affiliated fire company was paid in error.

THE EPHRATA FIREFIGHTERS RELIEF ASSOCIATION OF THE PIONEER STEAM FIRE
ENGINE COMPANY NO. 1 OF EPHRATA, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: As a result of this improper expenditure, 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 \$22,858 for the unauthorized expenditure 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. 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 that the affiliated fire company reimbursed the relief association \$22,858 for the unauthorized expenditure on January 16, 2018.

Auditor’s Conclusion: We reviewed documentation verifying that the reimbursement of \$22,858 was received and deposited into the relief association account. Compliance for expenditures made during the next audit period 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. Specifically, the relief association purchased \$90,761 of equipment during the current audit period and there was no equipment roster created or maintained for these purchases. 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

THE EPHRATA FIREFIGHTERS RELIEF ASSOCIATION OF THE PIONEER STEAM FIRE
ENGINE COMPANY NO. 1 OF EPHRATA, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

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

THE EPHRATA FIREFIGHTERS RELIEF ASSOCIATION OF THE PIONEER STEAM FIRE
ENGINE COMPANY NO. 1 OF EPHRATA, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 52,245
Fair Value of Investments	<u>721,199</u>
Total Cash and Investments	<u>\$ 773,444</u>

THE EPHRATA FIREFIGHTERS RELIEF ASSOCIATION OF THE PIONEER STEAM FIRE
ENGINE COMPANY NO. 1 OF EPHRATA, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 49,092
Tokens of sympathy and goodwill	326
Total Benefit Services	<u>\$ 49,418</u>
Fire Services:	
Equipment purchased	\$ 90,761
Equipment maintenance	11,176
Training expenses	11,893
Fire prevention materials	18,812
Total Fire Services	<u>\$ 132,642</u>
Administrative Services:	
Other administrative expenses	\$ 639
Bond premiums	806
Total Administrative Services	<u>\$ 1,445</u>
Other Expenditures:	
Unauthorized expenditure	<u>\$ 22,858</u>
Total Expenditures	<u><u>\$ 206,363</u></u>

THE EPHRATA FIREFIGHTERS RELIEF ASSOCIATION OF THE PIONEER STEAM FIRE
ENGINE COMPANY NO. 1 OF EPHRATA, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Ephrata Firefighters Relief Association of the Pioneer Steam Fire Engine Company No. 1 of
Ephrata, Pennsylvania Governing Body:

Mr. James Keifer
President

Mr. Vernon Schmuck
Vice President

Mr. Paul Miley
Secretary

Mr. William Ives, Jr.
Treasurer

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

Mr. D. Robert Thompson
Secretary
Ephrata Borough

Mr. Anthony Haws
Secretary
Ephrata 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.