

COMPLIANCE AUDIT

Fairfield Community Firemen's Relief Association

Adams County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2017

March 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Kevan Taylor, President
Fairfield Community Firemen's
Relief Association
Adams County

We have conducted a compliance audit of the Fairfield Community Firemen'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, 2015 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, 2015 to December 31, 2017:

- The relief association did not take appropriate corrective action to address the findings contained in our prior audit report, as detailed 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 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

Finding No. 3 – Inadequate Financial Record-Keeping System

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.

February 25, 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Carroll Valley Borough	Adams	\$20,412	\$20,253	\$18,429
Fairfield Borough	Adams	\$ 3,647	\$ 3,615	\$ 3,294
Hamiltonban Township	Adams	\$ 5,081	\$ 5,040	\$ 5,153
Highland Township	Adams	\$ 2,514	\$ 2,502	\$ 2,782
Liberty Township	Adams	\$ 4,857	\$ 4,826	\$ 5,125

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:

Fairfield Community Fire Company

FAIRFIELD COMMUNITY FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure To Maintain A Complete And Accurate Equipment Roster
- Undocumented Expenditure

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.

FAIRFIELD COMMUNITY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain
A Complete And Accurate Equipment Roster**

Condition: The relief association did not maintain a complete and accurate roster of equipment owned by the relief association. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all equipment owned by the relief association.

A similar condition was noted in our prior audit report.

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: Even though notified of this condition during our prior audit, relief association officials again 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 again 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.

FAIRFIELD COMMUNITY FIREMEN'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 indicated they will take action to comply with the recommendation.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

Condition: During the prior audit period, the relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$2,000 to a training vendor on December 4, 2014, and the relief association officials did not take corrective action to address the undocumented expenditure prior to the current audit period ending December 31, 2017. In addition, the relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$1,680 to the same training vendor on January 8, 2015.

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 invoices, training certificates 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: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

FAIRFIELD COMMUNITY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Lack of supporting documentation, such as invoices, training certificates and/or itemized receipts, 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 provide this department with adequate supporting documentation, such as invoices, training certificates and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$3,680 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 3 – Inadequate Financial Record-Keeping System

Condition: The relief association's financial record-keeping system did not establish adequate accounting procedures to allow the membership to effectively monitor the relief association's financial operations. The following are the noted deficiencies:

- A journal was not maintained to record the receipts and disbursements of the relief association.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Documentation to support various expenditures was not available for examination at the time of the audit.

FAIRFIELD COMMUNITY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Section 7415(a) of Act 118 states:

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials indicated that they were unaware of their various record-keeping responsibilities. Even though notified of this condition through a verbal observation during our prior audit, relief association officials again neglected their various record-keeping responsibilities.

Effect: The continued failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We recommend that the relief association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations. 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.

FAIRFIELD COMMUNITY FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 56,274
Fair Value of Investments	<u>66,321</u>
Total Cash and Investments	<u>\$ 122,595</u>

FAIRFIELD COMMUNITY FIREMEN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 33,090
Death benefits	400
Relief benefits	72
Total Benefit Services	\$ 33,562
Fire Services:	
Equipment purchased	\$ 55,225
Equipment maintenance	5,857
Training expenses	3,973
Total Fire Services	\$ 65,055
Administrative Services:	
Other administrative expenses	5,135
Bond premiums	200
Total Administrative Services	\$ 5,335
Other Expenditures:	
Undocumented expenditures	\$ 1,680
Total Expenditures	\$ 105,632

FAIRFIELD COMMUNITY FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Fairfield Community Firemen's Relief Association Governing Body:

Mr. Kevan Taylor
President

Ms. Cheryl Kulkusky
Treasurer

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

Mr. David A. Hazlett
Manager
Carroll Valley Borough

Ms. Susan E. Wagle
Secretary
Fairfield Borough

Ms. Nina Garretson
Secretary
Hamiltonban Township

Ms. Mary Sherman
Secretary
Highland Township

Ms. Wendy Peck
Secretary
Liberty Township

FAIRFIELD COMMUNITY FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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