

# COMPLIANCE AUDIT

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The Goodwill Fire Company Relief  
Association of Laceyville, PA  
Wyoming County  
For the Period  
January 1, 2015 to December 31, 2017

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September 2018



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



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Martin A. Petrocco, President  
The Goodwill Fire Company Relief  
Association of Laceyville, PA  
Wyoming County

We have conducted a compliance audit of the Goodwill Fire Company Relief Association of Laceyville, PA (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 –  
Insufficient Surety (Fidelity) Bond Coverage

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Untimely Receipts And Deposits Of State Aid

Finding No. 3 – Failure To Disclose Related Party Transactions

Finding No. 4 – Unauthorized Expenditure

Finding No. 5 – 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.

September 5, 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>2015</u>	<u>2016</u>	<u>2017</u>
Auburn Township	Susquehanna	\$2,224	\$2,224	\$2,182
Braintrim Township	Wyoming	\$2,634	\$2,618	\$2,499
Laceyville Borough	Wyoming	\$1,799*	\$1,787	\$1,659
Meshoppen Township	Wyoming	\$1,495	\$1,493	\$1,447
Tuscarora Township	Bradford	\$5,870	\$5,851	\$5,937*
Windham Township	Wyoming	\$2,546*	\$2,541	\$2,532

\* The 2015 state aid allocation received from Laceyville Borough was not deposited by the relief association until July 19, 2018. The 2015 Windham Township state aid allocation was not forwarded to the relief association until February 11, 2016 and was not deposited until April 8, 2016; the 2017 Tuscarora Township state aid allocation was not forwarded to the relief association until June 28, 2018 and was not deposited until July 2, 2018 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 the following fire service organization:

Goodwill Fire Company

THE GOODWILL FIRE COMPANY RELIEF ASSOCIATION OF LACEYVILLE, PA  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Deposit State Aid

By depositing the 2014 state aid of \$1,799 from Laceyville Borough, and by establishing accounting procedures to ensure that all income received is deposited in the relief association's account.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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:

- Insufficient Surety (Fidelity) Bond Coverage
- Untimely Receipt And Deposit Of State Aid

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.

THE GOODWILL FIRE COMPANY RELIEF ASSOCIATION OF LACEYVILLE, PA  
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, 2017, the relief association’s cash assets totaled \$115,688.

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: Relief association officials failed 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. 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.



THE GOODWILL FIRE COMPANY RELIEF ASSOCIATION OF LACEYVILLE, PA  
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 – Untimely Receipts And Deposits Of State Aid**

Condition: The relief association did not deposit the 2015 state aid allocation it received from Windham Township, in the amount of \$2,546, until April 8, 2016. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 24, 2015; however, municipal officials failed to forward the state aid allocation to the relief association until February 11, 2016, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). In addition, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

The relief association did not deposit the 2015 state aid distributed by Laceyville Borough, in the amount of \$1,799, into a relief association account. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 24, 2015, who forwarded this state aid to the Goodwill Fire Company on January 26, 2016, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). The \$1,799 was not deposited into the relief association account until July 19, 2018.

Additionally, while Tuscarora Township prepared and returned a Certification Form AG 385 for 2017 by the March 31 annual filing date in accordance with Act 205, the township did not distribute the 2017 state aid in the amount of \$5,937 to the relief association in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 25, 2017, who forwarded this state aid to the relief association on June 28, 2018, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). In addition, Tuscarora Township failed to submit a Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this department as required by the instructions accompanying Form 706-B and the 2017 state aid allocation received by the township disclosing this information until June 27, 2018. Since there was no documentation indicating that the relief association attempted to retrieve the funds, the relief association did not ensure the funds were received and deposited timely. Upon receipt of the state aid allocation, the relief association deposited the funds into a relief association account on July 2, 2018.

THE GOODWILL FIRE COMPANY RELIEF ASSOCIATION OF LACEYVILLE, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (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 practice dictates 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 to ensure that all income due the relief association was received, recorded and deposited into a relief association account in a timely manner.

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds 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 receipt and 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.

**Finding No. 3 – Failure To Disclose Related Party Transaction**

Condition: Relief association officials failed to disclose a related party transaction to the relief association membership. As of December 31, 2017, the bank holds 100 percent of the relief association's assets at a bank in at which the relief association treasurer was employed. A related party transaction occurs when the relief association does business with a vendor that employs or is owned by a relief association officer or a member of an officer's immediate family.

THE GOODWILL FIRE COMPANY RELIEF ASSOCIATION OF LACEYVILLE, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3- (Continued)**

Such a transaction may provide a less than arm's length financial benefit to such officer or member of such officer's immediate family through a commission or a profit from a sale.

Criteria: Ethics laws state that all potential related party transactions should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, all officers and/or members involved with a business that is party to the related party transaction should abstain from all votes concerning such transactions.

Cause: Relief association officials indicated that they were unaware that related party transactions should be disclosed to the membership.

Effect: The failure to properly disclose a related party transaction may create potential conflicts of interest which could result in the relief association being involved in less than arm's length financial transactions.

Recommendation: We recommend that the relief association officials take the actions necessary to eliminate the appearance of conflicts of interests. Actions should include, but are not limited to, written notification to the relief association membership for each related party transaction, and the abstention from decisions and voting rights by the relief association officials who are involved owners of businesses that have business dealings with the relief association. These actions should be documented in the relief association's minutes. Furthermore, the relief association officials should closely review all related party transactions to ensure that all transactions are at arm's length, i.e., the cost of the services rendered by the firm is competitive.

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.

**Finding No. 4 – Unauthorized Expenditure**

Condition: The relief association expended \$3,240 for doors and locks for the fire company building during the current audit period that is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(11) states:

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

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

THE GOODWILL FIRE COMPANY RELIEF ASSOCIATION OF LACEYVILLE, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4- (Continued)**

Costs associated with the purchase of the identified doors and locks for the fire company building 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 they were unaware that the expenditure for the door and locks was not authorized by Act 118.

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 \$3,240 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 they will take action to comply with the recommendation.

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

**Finding No. 5 – 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, this listing was incomplete and did not accurately identify all of the equipment owned by the relief association. The relief association purchased \$8,558 of equipment during the current audit period, but the equipment for \$2,580 of those purchases was not properly accounted for on the relief association's equipment roster. 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.

THE GOODWILL FIRE COMPANY RELIEF ASSOCIATION OF LACEYVILLE, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 5- (Continued)**

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.

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 GOODWILL FIRE COMPANY RELIEF ASSOCIATION OF LACEYVILLE, PA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH BALANCE  
AS OF DECEMBER 31, 2017

Cash	<u>\$ 115,688</u>
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THE GOODWILL FIRE COMPANY RELIEF ASSOCIATION OF LACEYVILLE, PA  
SUPPLEMENTARY FINANCIAL INFORMATION  
SUMMARY OF EXPENDITURES  
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	<u>\$      9,825</u>
Fire Services:	
Equipment purchased	<u>\$      8,558</u>
Other Expenditures:	
Unauthorized expenditure	<u>          3,240</u>
Total Expenditures	<u><u>\$     21,623</u></u>

THE GOODWILL FIRE COMPANY RELIEF ASSOCIATION OF LACEYVILLE, PA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

The Goodwill Fire Company Relief Association of Laceyville, PA Governing Body:

**Mr. Martin A. Petrocco**  
President

**Ms. Nicole Ruhf**  
Vice President

**Ms. Lisa Bullock**  
Secretary

**Ms. Courtney Salsman**  
Treasurer



THE GOODWILL FIRE COMPANY RELIEF ASSOCIATION OF LACEYVILLE, PA  
REPORT DISTRIBUTION LIST

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

**Ms. Emily Cleveland**  
Secretary  
Auburn Township

**Ms. Bonnie H. Jayne**  
Secretary  
Braintrim Township

**Ms. Courtney Salsman**  
Secretary  
Laceyville Borough

**Ms. Diana Nichols**  
Secretary  
Meshoppen Township

**Ms. Susan C. Berkley**  
Secretary  
Tuscarora Township

**Mr. Kenneth Johnson**  
Secretary  
Windham Township

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