

COMPLIANCE AUDIT

The Ickesburg Volunteer Fireman's Relief Association Perry County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

January 2020



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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Ms. Chrissy Baughman, President
The Ickesburg Volunteer Fireman's
Relief Association
Perry County

We have conducted a compliance audit of The Ickesburg Volunteer Fireman'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, 2017 to December 31, 2018.

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, 2017 to December 31, 2018:

- The relief association took appropriate corrective action to address two of the three findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- Because of the significance of the matters described in findings below and discussed later in this report, the relief association did not, in all significant respects, comply 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, collectively as a whole. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

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

Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Finding No. 3 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

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 15, 2020



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>2017</u>	<u>2018</u>
Northeast Madison Township	Perry	\$ 3,941	\$ 3,579
Saville Township	Perry	\$16,826	\$15,274
Tuscarora Township	Perry	\$ 1,672	\$ 1,526

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:

Ickesburg Volunteer Fire Company

THE ICKESBURG VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Undocumented Expenditures

By receiving reimbursement of \$2,630 from the affiliated fire company and by providing adequate documentation to evidence the propriety of \$875 of the undocumented expenditures that were made in the prior audit period.

- Inadequate Signatory Authority For The Disbursement Of Funds

By requiring more than one signature on all negotiable instruments.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of the three prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure To Maintain A Complete And Accurate Equipment Roster

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.

THE ICKESBURG VOLUNTEER FIREMAN'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. Although a listing of relief association owned equipment was provided during the current audit period, it consisted of items owned by the relief association and by the affiliated fire company. Also, 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, it was impossible to determine if all equipment purchased during the audit period in the amount of \$68,938 was recorded. 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 continued 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.

THE ICKESBURG VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

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 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Condition: On January 26, 2018, the relief association expended \$29,908 for the purpose of jointly purchasing a vehicle with the affiliated fire company. However, the relief association did not adequately secure its ownership interest in this jointly purchased vehicle as the vehicle was titled solely in the name of the fire company.

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.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of the cost of the vehicle. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold.

Cause: Relief association officials failed to implement internal controls to ensure that it adequately secured its proportional ownership interest in the jointly purchased vehicle.

THE ICKESBURG VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicle places the relief association's ownership interest at greater risk. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$29,908. 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: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

Finding No. 3 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

Condition: On May 19, 2003, the relief association entered into an agreement with the affiliated fire company where the relief association would receive a pro-rata share of 21 percent of the sale proceeds for a jointly purchased vehicle if the vehicle was ever sold. On August 18, 2017, the jointly purchased vehicle was sold for \$55,000. However, on September 28, 2017, the relief association only received and deposited a portion of the proportional ownership interest of the proceeds from the sale of the jointly purchased vehicle in the amount of \$4,400. The remaining amount due to the relief association is \$7,150.

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.

THE ICKESBURG VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold. Once the vehicle is sold, the relief association officials should closely monitor all sales to ensure proceeds are received and timely deposited into a relief association account.

Cause: Relief association officials did execute a formal written agreement with the fire company; however, it failed to ensure that it received and deposited its full proportional ownership interest due from the proceeds of the sale of a jointly purchased vehicle with the affiliated fire company into a relief association account.

Effect: The failure to receive and deposit the proceeds from the sale of a jointly purchased vehicle with the affiliated fire company places the relief association's ownership interest at greater risk. As a result, the relief association was unable to use the funds for general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$7,150 for its remaining pro-rata share of the proceeds from the sale of the jointly purchased vehicle. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all future proceeds resulting from the sale of a jointly purchased vehicle are timely deposited in a relief association account. 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 audit, the affiliated fire company issued a check to the relief association in the amount of \$7,150 for the remaining pro-rata share of the proceeds from the sale of the jointly purchased vehicle, on September 26, 2019, and the funds were deposited into a relief association account on October 7, 2019.

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

THE ICKESBURG VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action may not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

THE ICKESBURG VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2018

Cash	\$ 20,605
Fair Value of Investments	<u>23,063</u>
Total Cash and Investments	<u>\$ 43,668</u>

THE ICKESBURG VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 8,178
Fire Services:	
Equipment purchased	\$ 68,938
Equipment maintenance	5,446
Training expenses	1,780
Total Fire Services	\$ 76,164
Administrative Services:	
Other administrative expenses	\$ 13,580
Bond premiums	300
Total Administrative Services	\$ 13,880
Total Investments Purchased	\$ 12,000
Total Expenditures	\$ 110,222

THE ICKESBURG VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Ickesburg Volunteer Fireman's Relief Association Governing Body:

Ms. Chrissy Baughman
President

Mr. Shawn P. Kleeman
Vice President

Mr. Eli Kell
Secretary

Mr. James C. Kleeman, Jr.
Treasurer

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

Mr. Zachary D. Kuhn
Secretary
Northeast Madison Township

Mr. Terry K. Urich
Secretary
Saville Township

Ms. Debra Campbell
Secretary
Tuscarora Township

THE ICKESBURG VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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.