

COMPLIANCE AUDIT

Mifflinburg Hose Company Fireman's Relief Association Union County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

February 2019



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



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
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www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Charles Klose, President
Mifflinburg Hose Company Fireman's
Relief Association
Union County

We have conducted a compliance audit of the Mifflinburg Hose Company 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, 2016 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, 2016 to December 31, 2017:

- The relief association took appropriate corrective action to address the findings contained in our prior audit 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 – Untimely Receipt And Deposit Of State Aid

Finding No. 2 – Undocumented Expenditure

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 28, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	3
Findings and Recommendations:	
Finding No. 1 – Untimely Receipt And Deposit Of State Aid.....	4
Finding No. 2 – Undocumented Expenditure.....	5
Supplementary Financial Information	6
Report Distribution List	8

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>
Buffalo Township	Union	\$11,375	\$11,041
Hartleton Borough	Union	\$ 1,344	\$ 1,293*
Lewis Township	Union	\$ 8,996	\$ 8,971
Limestone Township	Union	\$ 5,822	\$ 5,843
Mifflinburg Borough	Union	\$20,019	\$18,616
West Buffalo Township	Union	\$18,171	\$17,651

* The 2017 state aid allocation received from Hartleton Borough was not deposited by the relief association until March 5, 2018 as disclosed in Finding No. 1 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:

Mifflinburg Hose Company No. 1

MIFFLINBURG HOSE COMPANY FIREMAN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Insufficient Surety (Fidelity) Bond Coverage

By decreasing the relief association's cash assets to an amount below the maximum protection of the Surety (Fidelity) bond coverage.

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

MIFFLINBURG HOSE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Receipt And Deposit Of State Aid

Condition: The relief association did not deposit the 2017 state aid allocation it received from Hartleton Borough, in the amount of \$1,293, until March 5, 2018. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 25, 2017; however, the municipal official failed to forward the state aid allocation to the relief association until February 4, 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, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

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.

MIFFLINBURG HOSE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$1,434 to a relief association member on July 10, 2017.

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 an invoice and/or itemized receipt, 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: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as an invoice and/or itemized receipt, 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 recommend that the relief association officials provide this department with adequate supporting documentation, such as an invoice and/or itemized receipt, to ensure the propriety of the expenditure or that the relief association be reimbursed \$1,434 for the undocumented expenditure. 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: Compliance will be subject to verification through our next audit.

MIFFLINBURG HOSE COMPANY FIREMAN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2017

Cash	<u>\$ 63,910</u>
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MIFFLINBURG HOSE COMPANY FIREMAN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:

Insurance premiums	\$ 8,467
Relief benefits	140
Total Benefit Services	\$ 8,607

Fire Services:

Equipment purchased	\$ 171,231
Equipment maintenance	21,488
Training expenses	4,135
Fire prevention materials	420
Total Fire Services	\$ 197,274

Administrative Services:

Other administrative expenses	\$ 350
Bond premiums	100
Total Administrative Services	\$ 450

Other Expenditures:

Miscellaneous *	\$ 30,000
Undocumented expenditure	1,434
Total Other Expenditures	\$ 31,434

Total Expenditures	\$ 237,765
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*During the current audit, on November 1, 2016, the relief association made an erroneous deposit of funds intended for the affiliated fire company. Once the relief association found the error, the affiliated fire company was reimbursed \$30,000 on April 22, 2017.

MIFFLINBURG HOSE COMPANY FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mifflinburg Hose Company Fireman's Relief Association Governing Body:

Mr. Charles Klose
President

Mr. Tod Steese
Vice President

Ms. Allison Shively
Secretary

Mr. Dylan Wagner
Treasurer

Mr. Mark Anthony Miller
Director

Mr. Jarred Fry
Director

MIFFLINBURG HOSE COMPANY FIREMAN'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. Paige Curry
Secretary
Buffalo Township

Ms. Gwendolyn Perrin
Secretary
Hartleton Borough

Ms. Karen L. Watters
Secretary
Lewis Township

Ms. Teresa Haines
Secretary
Limestone Township

Ms. Margret A. Metzger
Secretary
Mifflinburg Borough

Mr. Robert E. Valentine
Secretary
West Buffalo 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.