

COMPLIANCE AUDIT

The Needmore Volunteer Fireman's Relief Association of Needmore, Fulton County, Pennsylvania

For the Period
January 1, 2015 to December 31, 2017

February 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Ms. Wavy Kirk, President
The Needmore Volunteer Fireman's Relief
Association of Needmore,
Fulton County Pennsylvania
Fulton County

We have conducted a compliance audit of The Needmore Volunteer Fireman's Relief Association of Needmore, Fulton County 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, 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 took appropriate corrective action to address six of the seven 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 a matter described in the 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 – Inappropriate Ownership Of Rescue Vehicle

Finding No. 3 – Failure To Segregate Relief Association Officers' Duties

Finding No. 4 – Failure To Maintain A Complete And Accurate Membership Roster

The four findings contained in this report cite conditions that existed in the operation of the relief association during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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 12, 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>
Belfast Township	Fulton	\$8,487	\$8,442	\$8,658
Bethel Township	Fulton	\$9,390	\$9,367	\$9,374
Brush Creek Township	Fulton	\$2,740	\$2,732	\$2,902
Licking Creek Township	Fulton	\$3,368	\$3,355	\$3,348
Thompson Township	Fulton	\$6,811	\$6,788	\$6,761
Union Township	Fulton	\$4,094	\$4,139	\$4,539

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:

Needmore Volunteer Fire Company

THE NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF NEEDMORE,
FULTON COUNTY
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Inadequate Signatory Authority For The Disbursement Of Funds

By requiring more than one signature on all negotiable instruments.

- Undocumented Expenditures

By receiving reimbursement of \$2,642 from the affiliated fire company for the undocumented expenditures that were made in the prior audit period.

- Inadequate Minutes Of Meetings

By maintaining detailed minutes of all relief association meetings held during the period.

- Unauthorized Expenditures

By receiving reimbursement of \$3,650 from the affiliated fire company for the unauthorized expenditures made in the prior audit period.

- Failure To Maintain A Pennsylvania Sales Tax Exemption Number

By maintaining a state sales tax exemption number and providing to all vendors from which the relief association purchases equipment.

- Relief Association Checking Account Inappropriately Registered Under Affiliated Fire Service Organization's Federal Tax Identification Number

By ensuring that all financial accounts are registered under the relief association's federal tax identification number.

THE NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF NEEDMORE,
FULTON COUNTY
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of the seven 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 NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF NEEDMORE,
FULTON COUNTY
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – 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 \$16,082 of equipment during the current audit period, but the equipment for all \$16,082 of those purchases was not properly accounted for on the relief association's equipment roster. In addition, the equipment roster provided included equipment purchased by the affiliated fire company. Furthermore, 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.

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.

THE NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF NEEDMORE,
FULTON COUNTY
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

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 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 – Inappropriate Ownership Of Rescue Vehicle

Condition: On December 6, 2017, the relief association purchased a rescue vehicle, in the amount of \$15,000, to carry personnel and safeguard equipment; however, the relief association officials failed to ensure that the title was in the name of the relief association and the title continues to reference the name of the previous owner.

Criteria: Prudent business practice dictates that the relief association should maintain sole ownership of all equipment purchased by the relief association. As such, rescue vehicles purchased by the relief association are to be titled in the name of the relief association.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that the rescue vehicle purchased was titled in the name of the relief association.

Effect: As a result of the rescue vehicle being inappropriately titled in the name of the previous owner, this relief association asset was not properly safeguarded. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

THE NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF NEEDMORE,
FULTON COUNTY
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the rescue vehicle be titled in the name of the relief association. If such action is not taken, we recommend that the relief association be reimbursed \$15,000. 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 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 Segregate Relief Association Officers' Duties

Condition: During the current audit, we detected that the same individual holds the position of both secretary and treasurer.

Criteria: Prudent business practice dictates that the duties of the secretary and treasurer be sufficiently segregated. An adequate segregation of duties is the primary internal control intended to prevent or decrease the risk of errors or irregularities.

The minimum requirements of the secretary's position, pertaining to a relief association, are to maintain detailed minutes of meetings authorizing the relief association's financial operations. The secretary should review and coordinate the amending of the bylaws governing the relief association so that the bylaws meet the minimum requirements of Act 118.

The minimum requirements of the treasurer's position, pertaining to a relief association, are to maintain an account of all funds belonging to the relief association. The treasurer shall maintain a journal and ledger detailing all financial transactions of the relief association along with documentation supporting the receipts and disbursements. The treasurer should co-sign all negotiable instruments along with another relief association officer. Also, financial statements should be prepared at least on an annual basis by the treasurer.

Cause: Relief association officials indicated that they were unaware that one person holding the position of both secretary and treasurer negates the internal controls associated with the segregation of duties.

THE NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF NEEDMORE,
FULTON COUNTY
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: An inadequate segregation of duties could prevent relief association officials and members from effectively monitoring the relief association's financial transactions. Additionally, it negates the checks and balances necessary to detect and correct financial errors or irregularities in the relief association's accounting system.

Recommendation: We recommend that the relief association officials ensure that there is adequate segregation of duties between the relief association's secretary and treasurer. We also recommend that the relief association officials review its accounting and internal control procedures to ensure that the duties being performed by the secretary and treasurer are sufficiently segregated so that relief association assets are adequately safeguarded. 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 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 – Failure To Maintain A Complete And Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members' mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials indicated that they were unaware that they should maintain a comprehensive roster of relief association members.

THE NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF NEEDMORE,
FULTON COUNTY
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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 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 NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF NEEDMORE,
FULTON COUNTY
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 NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF NEEDMORE,
FULTON COUNTY
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 18,009
Fair Value of Investments	<u>6,558</u>
Total Cash and Investments	<u>\$ 24,567</u>

THE NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF NEEDMORE,
 FULTON COUNTY
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 21,116
Fire Services:	
Equipment purchased	\$ 16,082
Equipment maintenance	5,468
Training expenses	63
Total Fire Services	\$ 21,613
Administrative Services:	
Other administrative expenses	\$ 684
Bond premiums	200
Total Administrative Services	\$ 884
Total Investments Purchased	\$ 5,000
Other Expenditures:	
Payments on loan	\$ 122,304
Total Expenditures	\$ 170,917

THE NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF NEEDMORE,
FULTON COUNTY
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Needmore Volunteer Fireman's Relief Association of Needmore, Fulton County
Pennsylvania Governing Body:

Ms. Wavy Kirk
President

Mr. Dennis Strait
Vice President

Ms. Donna Carbaugh
Secretary/Treasurer

THE NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF NEEDMORE,
FULTON COUNTY
REPORT DISTRIBUTION LIST

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

Ms. Paula Shives
Secretary
Belfast Township

Ms. Kelly Peck
Secretary
Bethel Township

Ms. Helen L. Layton
Secretary
Brush Creek Township

Ms. LuAnne Keebaugh
Secretary
Licking Creek Township

Mr. D. Gene Mellott
Secretary
Thompson Township

Ms. Carolyn M. Wills
Secretary
Union Township

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