

COMPLIANCE AUDIT

Shickshinny Volunteer Fire Company Fireman's Relief Association

Luzerne County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2018

February 2020



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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Randy Davis, President
Shickshinny Volunteer Fire Company
Fireman's Relief Association
Luzerne County

We have conducted a compliance audit of the Shickshinny Volunteer Fire 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, 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.

We were not able to obtain an independent confirmation of the cash balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2018, the relief association had a cash balance of \$19,698, we were not able to verify this cash balance.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2017 to December 31, 2018:

- The relief association took appropriate corrective action to address seven of the nine findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed 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 –
Inappropriate Disbursement Of Relief Association Funds

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Inadequate Financial Record-Keeping System

Finding No. 3 Insufficient Surety (Fidelity) Bond Coverage

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 18, 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>
Shickshinny Borough	Luzerne	\$3,289	*
Union Township	Luzerne	\$2,966	*

* During the current audit period, the relief association did not receive an allocation of state aid from Shickshinny Borough and Union Township in 2018. Municipalities have sole discretion to distribute their annual allocation of state aid received to any relief association providing fire service to the municipality.

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:

Shickshinny Volunteer Fire Company

During the conduct of our audit of the relief association, relief association officials indicated that the relief association is considering a merger with another volunteer firefighter's relief association as a result of financial and manpower constraints. Prudent business practice dictates that relief associations contemplating dissolution should consider retaining legal counsel to provide assurance that the dissolution complies with applicable laws and regulations governing non-profit charitable organizations and that all benefits owed to active and former association members are maintained and protected. In addition, if this is the case, the remaining relief association members should conduct a meeting to approve the dissolution of the association and the disposition of its assets. In most circumstances, all relief association-owned equipment and monetary assets of the dissolving relief association are to be transferred to the new relief association affiliated with the volunteer fire company that is reestablished as a result of the merger. In addition, relief association officials should contact this department in preparation of a final audit of the relief association and perform the following:

- The relief association should provide full documentation of the monetary assets and equipment being transferred. A complete inventory of all equipment should be performed and a listing of the equipment transferred should be completed.
- Upon transfer of the equipment, a signed receipt from the relief association receiving the equipment should be obtained to verify items of equipment transferred. Those items of equipment then become assets to the recipient relief association and should be added to that relief association's equipment roster.

The department will verify the receipt of the equipment and monetary assets transferred through an audit of the recipient association. However, as of the date of this report, the relief association has not made a formal commitment to dissolve and merge with another relief association.

SHICKSHINNY VOLUNTEER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Undocumented Expenditures

By receiving reimbursement of \$380 from the affiliated fire company for the undocumented expenditure that was made in the prior audit period.

- Unauthorized Expenditures

By receiving reimbursement of \$4,035 from the affiliated fire company for the unauthorized expenditures that were made in the prior audit period.

- Unsecured Loans And Failure To Comply With Terms Of Loan Agreements

By liquidating the loans and receiving reimbursement of \$6,500 from the affiliated fire company.

- Excessive Rental Fees Paid To Affiliated Fire Company

By discontinuing the practice of paying excessive rental fees and receiving reimbursement of \$2,000 from the affiliated fire company.

- Inadequate Minutes Of Meetings

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

- Failure To Maintain A Complete And Accurate Membership Roster

By maintaining a comprehensive listing of relief association membership.

- Inadequate Surety (Fidelity) Bond Coverage

By obtaining a bond policy covering the relief association's current disbursing officer.

SHICKSHINNY VOLUNTEER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Inappropriate Disbursement Of Relief Association Funds

Although the relief association received reimbursement of \$9,500 from the affiliated fire company for the inappropriate disbursements that were made in the prior audit period, the relief association again expended funds in the current audit period that were not authorized by Act 118 as further disclosed in Finding No. 1 of this report.

- Inadequate Financial Record-Keeping System

We are concerned by the relief association's failure to correct those previously reported audit findings. The association management should strive to implement the recommendation and corrective actions noted in this audit report.

SHICKSHINNY VOLUNTEER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inappropriate Disbursement Of Relief Association Funds

Condition: During the current audit period and subsequent to the period under review, the relief association disbursed \$15,850 and \$19,967, respectively, on behalf of the affiliated fire company to assist with the fire company's general operations.

A similar condition was noted in our prior audit report.

Criteria: Section 7416(f) of Act 118 states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of its affairs including legal fees and including but not by way of limitation the rental or purchase of offices, the payment of reasonable compensation of any needed employees, and the purchase of office equipment and supplies.

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

In addition, Section 7418(a) of Act 118 states, in part:

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.

The primary purpose of the items stated above was for the benefit of the affiliated fire company, not the relief association; consequently, these disbursements are not authorized under Act 118.

Cause: The relief association officials failed to establish adequate internal control procedures to ensure that relief association disbursements are made in accordance with Act 118, and that relief association assets are adequately protected. In addition, adequate financial documentation such as journals, ledgers, and documentation to support the validity of various expenditures was not available for examination at the time of the audit. Even though notified of this condition during our prior audit, relief association officials again neglected to stop inappropriately disbursing funds.

SHICKSHINNY VOLUNTEER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118.

Recommendation: We again recommend the relief association be reimbursed \$35,817 for the inappropriate disbursements and that relief association officials become familiar with Act 118 at Section 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$5,500 on April 2, 2018 and \$30,317 on December 31, 2019 for the inappropriate disbursements.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursements totaling \$35,817 were received. Compliance with inappropriate disbursement of funds made during the next audit period will be subject to verification through our next audit.

Finding No.2 – Noncompliance With Prior Audit Recommendation – 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 and to provide effective control over cash receipts, disbursements, and assets. 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.
- Online transfers were not adequately documented.

A similar condition was noted in our prior audit report.

SHICKSHINNY VOLUNTEER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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: Even though notified of this condition 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 again 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 and provides effective control over cash receipts, disbursements, and assets. 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 – 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 \$20,000. Although as of December 31, 2018, the relief association's cash assets were \$19,698; subsequent to the period under review, as of December 31, 2019, the relief association's cash assets totaled \$31,357.

SHICKSHINNY VOLUNTEER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Section 7415(c)(4) of Act 118 states, that:

The bylaws shall require 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.

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 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.

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.

SHICKSHINNY VOLUNTEER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2018

Cash	<u>\$ 19,698</u>
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SHICKSHINNY VOLUNTEER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Administrative Services:	
Other administrative expenses	\$ 3,068
Bond premiums	<u>200</u>
Total Administrative Services	<u>\$ 3,268</u>
Other Expenditures:	
Miscellaneous*	<u>\$ 15,850</u>
Total Expenditures	<u><u>\$ 19,118</u></u>

* During the current audit period, the relief association inappropriately disbursed a total of \$15,850 to the affiliated fire company. These disbursements are considered miscellaneous expenditures as disclosed in Finding No. 1 of this report.

SHICKSHINNY VOLUNTEER FIRE 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

Shickshinny Volunteer Fire Company Fireman's Relief Association Governing Body:

Mr. Randy Davis
President

Ms. Stacey Hamilton
Treasurer

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

Ms. Eleanor Molina
Secretary
Shickshinny Borough

Ms. Lori Ragazzo
Secretary
Union 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.