

COMPLIANCE AUDIT

Snow Shoe Firemen's Relief Association of Snow Shoe, PA Centre County, Pennsylvania For the Period January 1, 2016 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

Mr. Thomas Moore, President
Snow Shoe Firemen's Relief Association
Of Snow Shoe, PA
Centre County

We have conducted a compliance audit of the Snow Shoe Firemen's Relief Association Of Snow Shoe, 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, 2016 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, 2016 to December 31, 2018:

- 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 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Inadequate Signatory Authority For The Disbursement Of Funds

Finding No. 3 – Inappropriate Commingling Of Funds

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 3, 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>2016</u>	<u>2017</u>	<u>2018</u>
Snow Shoe Borough	Centre	\$ 3,807	\$ 3,475	\$3,171
Snow Shoe Township	Centre	\$11,055	\$10,837	\$9,850

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:

Snow Shoe Fire Company

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA
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:

- Untimely Deposit Of State Aid

By timely depositing all income received.

- Undocumented And Unauthorized Expenditures

By receiving reimbursements from the affiliated fire company of \$2,464 for the undocumented expenditures and \$443 for the unauthorized expenditures made in the prior audit period.

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – 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, it was incomplete because it did not contain quantities of the items purchased and serial numbers to accurately identify equipment owned by the relief association. 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.

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.

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, 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: Compliance will be subject to verification through our next audit.

Finding No. 2 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 30 out of 59 current audit period expenditures and 17 of the post audit period expenditures drawn on the relief association's checking account that contained the signature of a non-relief association individual (fire chief) and the relief association's disbursing officer, even though two relief association officer's signatures, one of whom shall be the disbursing officer, are required by Act 118 and the relief association bylaws. Issuing checks with the signature of only one relief association officer negates the relief association's internal control over the disbursement process.

Criteria: Section 7415(c)(3) of Act 118 states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

In addition, Article VIII, Section 2 of the relief association's bylaws state:

The signatures of at least two officers, one of whom shall be the Treasurer, shall be required for the issuance of relief association checks or withdrawal of funds from savings accounts or investments.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials neglected to establish adequate internal control procedures that require the signatures of at least two officers on all negotiable instruments.

Effect: As a result of the relief association officer issuing checks with only one relief association officer's signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118. 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 – Inappropriate Commingling Of Funds

Condition: In 2016, the relief association inappropriately deposited a total of \$15,681 of funds intended for the affiliated fire company into its checking account. On June 15, 2016, the relief association issued a check to the affiliated fire company to reimburse \$12,950 of the inappropriately deposited funds. The relief association indicated that the remaining \$2,731 will remain in the relief association's account as a donation from the affiliated fire company.

Criteria: Relief association funds should not be commingled with any other organization's funds in order to maintain effective control of its assets. In addition, adequate accounting and internal controls should include procedures to prevent erroneous deposits.

Cause: The relief association failed to establish adequate internal control procedures that would prevent erroneous deposits and the commingling of funds.

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets.

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure that only funds intended for the relief association are deposited into the relief association's 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 indicated they will take action to comply with the recommendation.

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

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2018

Cash	\$ 23,311
Fair Value of Investments	<u>25,441</u>
Total Cash and Investments	<u><u>\$ 48,752</u></u>

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 14,581
Fire Services:	
Equipment purchased	\$ 22,386
Equipment maintenance	6,182
Training expenses	1,479
Fire prevention materials	353
Total Fire Services	\$ 30,400
Administrative Services:	
Other administrative expenses	\$ 499
Bond premiums	302
Total Administrative Services	\$ 801
Total Investments Purchased	\$ 25,000
Other Expenditures:	
Miscellaneous – See Finding No. 3	\$ 12,950
Total Expenditures	\$ 83,732

SNOW SHOE FIREMEN'S RELIEF ASSOCIATION OF SNOW SHOE, PA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Snow Shoe Firemen's Relief Association Of Snow Shoe, PA Governing Body:

Mr. Thomas Moore
President

Ms. Nichole McClellan
Treasurer

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

Ms. Karen Basalla
Secretary
Snow Shoe Borough

Ms. Tara L. Guenot
Secretary
Snow Shoe 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.