

COMPLIANCE AUDIT

Susquehanna Township Fireman's Relief Association

Dauphin 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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Kelvin Seigle, President
Susquehanna Township Fireman's
Relief Association
Dauphin County

We have conducted a compliance audit of the Susquehanna Township 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.

We were not able to obtain independent confirmations of the cash balance and the investment balance directly from the financial institutions. Therefore, while the relief association provided copies of bank and investment statements that indicated that, as of December 31, 2017, the relief association had a cash balance of \$366,480 and an investment balance with a fair value of \$645,143, we were not able to verify those cash and investment balances.

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, 2016 to December 31, 2017:

- The relief association took appropriate corrective action to address one of the four findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the three 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 – Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws

Finding No. 4 – Failure To Define Discretionary Benefits

Three of the four audit findings contained in this report cite conditions that existed in the operation of the relief association during the prior audit period and were not corrected 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.

We have also issued the observation below as detailed in the Observation section of this report.

Observation – FDIC Coverage Limits Exceeded

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 19, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2016</u>	<u>2017</u>
Susquehanna Township	Dauphin	\$174,313	\$161,532

The volunteer firefighters’ relief association and the affiliated fire service organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Edgemont Fire Company No. 1

Progress Fire Company

Rescue Fire Company No. 1

SUSQUEHANNA TOWNSHIP FIREMAN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain A Complete And Accurate Membership Roster

By maintaining a comprehensive listing of the relief association's membership.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Undocumented Expenditures
- Failure To Maintain A Complete And Accurate Equipment Roster
- Inadequate Relief Association Bylaws

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

SUSQUEHANNA TOWNSHIP FIREMAN’S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

Condition: During the prior audit period, the relief association was unable to provide supporting documentation for an April 10, 2014 expenditure amounting to \$1,124 for mold removal, and the relief association officials did not take corrective action to address the undocumented expenditure prior to the current audit period ending December 31, 2017. In addition, during the current audit period, the relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
11/01/16	521	Individual for training	\$ 590
11/01/16	522	Affiliated fire company for training	2,681
07/24/17	600	Equipment/maintenance vendor	461
Total			<u>\$ 3,732</u>

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 invoices and/or itemized receipts, 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: Even though notified of this condition during our prior audit, relief association officials again neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were 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.

SUSQUEHANNA TOWNSHIP FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$4,856 for the undocumented expenditures. 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, as a result of our audit, the affiliated municipality reimbursed the relief association \$1,124 for the prior audit period undocumented expenditures on January 15, 2019 leaving a balance of \$3,732.

Auditor's Conclusion: We have reviewed documentation verifying that the reimbursement of \$1,124 was received. Compliance for the remaining \$3,732 in undocumented expenditures made during the current audit period will be subject to verification through our next audit. 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 – 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, only two of the three affiliated fire companies were included and the listing was incomplete and did not accurately identify all of the equipment owned by the relief association. The relief association purchased \$436,455 of equipment during the current audit period, but the equipment for \$303,964 of those purchases was not properly accounted for on the relief association's equipment roster. In addition, 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.

SUSQUEHANNA TOWNSHIP FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

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.

SUSQUEHANNA TOWNSHIP FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the relief association do not clearly address all of the provisions required by Section 7415(c) of Act 118 and/or considered to be beneficial to the operation of relief associations. Specifically, the bylaws do not address the following:

- Voting privileges for the election of delegates.
- Termination of membership.
- Quorum requirements of regular meetings, special meetings or meetings of the Board of Directors.
- Requirement of having the signatures of at least two officers, one of whom shall be the disbursing officer.
- Approval procedures for the disbursement of funds.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(c) of Act 118 states that the relief association's bylaws shall:

- (1) Specify the requirements for securing membership, voting rights of different classes of members, if there be different classes, and conditions under which membership may be terminated.
- (2) State the notice requirements and procedure to be followed in calling meetings, as well as quorum requirements for regular and special meetings of the membership and for regular and special meetings of the body which governs the operations of the association between membership meetings, and shall designate that body, whether it be a board of directors, trustees or any similar body such as an executive committee. Unless otherwise provided for in the bylaws, powers and duties of officers, directors and trustees shall be those which normally pertain to such positions in nonprofit corporations.
- (3) 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.
- (5) State the procedure to be followed in nominating and in electing officers, trustees, directors, and members of the executive committee, according to the provisions which have been made for establishment of those positions.
- (6) Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.

SUSQUEHANNA TOWNSHIP FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, the relief association bylaws should authorize and clearly specify the criteria to be met before receiving death or relief benefits and the amount of any benefit payments. In addition, the bylaws should address the authorization of compensation to relief association officers.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to amend the relief association bylaws to meet the bylaw provisions required by Act 118.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We again recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of the relief association. 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. 4 – Failure To Define Discretionary Benefits

Condition: The relief association did not formally define and approve discretionary benefits that were being offered to its members. During the current audit period, the relief association paid \$625 in officers' compensation. Although these expenditures were authorized by Act 118, the types, amounts, and criteria to be met before receiving the benefits were not described in a formal policy approved by the relief association membership.

Criteria: Section 7413 of Act 118 states that funds shall be available:

- (3) For payment, either by insurance or by operation of a beneficial fund, of a sum certain to designated beneficiaries of a participating member following the death of a member for any cause and to establish criteria which members must meet in order to qualify as participants in a death benefit fund. (Emphasis added.)

SUSQUEHANNA TOWNSHIP FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

- (5) Financial assistance to volunteer firefighters who, after having actively participated in the fire service for a specified minimum term, are no longer physically able to continue participation and are in need of financial assistance. (Emphasis added.)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, disability benefits, officer compensation, or any other type of discretionary benefit provided by Act 118, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal relief association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well as the criteria to be met in order to receive the benefits.

Cause: Relief association officials indicated that they were not aware of the specific stipulations of Act 118 and did not perceive the formal approval to be an essential internal control in safeguarding relief association assets. As a result, relief association officials failed to establish procedures to formally define the benefits and related criteria for the benefits offered to members.

Effect: The relief association's failure to formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the relief association.

Recommendation: We recommend that the relief association officials formally define and document the criteria of the discretionary benefits being offered to its membership. The formal approval of benefits and related criteria should be documented in the bylaws, a policy statement, or in the official meeting minutes, and should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the criteria to be met before receiving the benefit. Furthermore, all approved discretionary benefits should be in accordance with provisions of 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.

SUSQUEHANNA TOWNSHIP FIREMAN'S RELIEF ASSOCIATION
OBSERVATION

Observation – FDIC Coverage Limits Exceeded

The relief association failed to ensure that all cash deposits were below the FDIC coverage limits per account ownership in one institution. As of December 31, 2017, the relief association's ending cash balance with the financial institution amounted to \$340,423.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United State government that protects the funds depositors place in banks and savings associations. FDIC insurance is backed by the full faith and credit of the United States government.

FDIC insurance covers all deposit accounts, including:

- Checking accounts
- Savings accounts
- Money market accounts
- Certificates of deposit

FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual funds, life insurance policies, annuities and securities. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.

Section 7413 of Act 118 states that the purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure as far as circumstances will reasonable permit, that the funds shall be available for the protection of the volunteer firefighters' and their heirs.

Furthermore, prudent business practice dictates that in addition to performing monthly bank reconciliations, the relief association should ensure the relief association's cash balance does not exceed FDIC limits set by banking regulations. Lack of effective monitoring of relief association cash and investment assets places the relief association funds at greater risk for loss.

The relief association should monitor all cash and investment assets that are eligible for FDIC insurance and ensure the balance of those assets per banking institution does not exceed FDIC coverage limits.

SUSQUEHANNA TOWNSHIP FIREMAN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 366,480
Fair Value of Investments	<u>645,143</u>
Total Cash and Investments	<u>\$ 1,011,623</u>

SUSQUEHANNA TOWNSHIP 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	\$ 28,306
Fire Services:	
Equipment purchased	\$ 436,455
Equipment maintenance	24,450
Training expenses	7,170
Fire prevention materials	1,905
Total Fire Services	\$ 469,980
Administrative Services:	
Officer compensation	\$ 625
Other administrative expenses	2,580
Bond premiums	1,604
Total Administrative Services	\$ 4,809
Total Investments Purchased	\$ 71,763
Other Expenditures:	
Undocumented expenditures	\$ 3,732
Unauthorized expenditure *	100
Total Other Expenditures	\$ 3,832
Total Expenditures	\$ 578,690

* During 2017, the relief association made an insignificant disbursement in the amount of \$100 for pediatric medical supplies which was not authorized by Act 118. We disclosed this issue to relief association officials on February 14, 2019.

SUSQUEHANNA TOWNSHIP FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Susquehanna Township Fireman's Relief Association Governing Body:

Mr. Kelvin Seigle
President

Mr. Rod Calhoun
Vice President

Mr. Glenn McCoy
Secretary

Mr. Michael Lipsett
Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association:

Mr. David Kratzer
Secretary
Susquehanna 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.