

COMPLIANCE AUDIT

Tilbury Volunteer Fire Company 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. Peter Kruscavage, President
Tilbury Volunteer Fire Company
Relief Association
Luzerne County

We have conducted a compliance audit of the Tilbury Volunteer Fire Company 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 objective of the audit was 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 objective 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 objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, because of the significance of the matters 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, for the period January 1, 2017 to December 31, 2018. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Inadequate Minutes Of Meetings

Finding No. 2 – Undocumented And/Or Unauthorized Disbursement of Relief Association Funds

We recommend the results of this audit be used by the Luzerne County, Pennsylvania District Attorney's Office to determine whether any criminal laws of this Commonwealth have been violated and/or for whatever action it may deem appropriate and necessary.

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.

January 17, 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>
Plymouth Township	Luzerne	\$8,957	\$8,131

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:

Plymouth Township Fire and Rescue

TILBURY FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Minutes Of Meetings

Condition: As cited as a verbal observation in our prior audit, the relief association failed to maintain detailed minutes of meetings as required by Act 118. The relief association’s minutes did not address all of the financial-related transactions that occurred during the audit period. Additionally, although meeting minutes were recorded for every meeting as required by the relief association’s bylaws, the treasurer was the person recording the meeting minutes in 2018, instead of the secretary as required by the relief association’s bylaws.

Criteria: Section 7415(a) of Act 118 states, in part, that the relief association:

. . . 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, the relief association’s bylaws at Article III, Section 2 (Secretary) states, in part:

Secretary: The Secretary shall keep a record of the proceedings of all meetings in a bound type ledger. One shall keep record of all financial authorizations and any other major pertinent business of said meeting.

Furthermore, the relief association’s bylaws at Article III, Section 2 (Treasurer) states, in part:

Treasurer: The Treasurer shall keep account of all association funds. He may pay any routine monthly expense such as payments or rentals of equipment as they occur, but any new expenditure must be approved at a meeting. (Emphasis added.)

Cause: Relief association officials indicated that they were unaware that maintaining detailed minutes of meetings was required by Act 118.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend that the relief association officials maintain detailed minutes of meetings prepared by the secretary, evidencing the discussion and approval of all financial-related business conducted by 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: Compliance will be subject to verification through our next audit.

TILBURY FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented And/Or Unauthorized Disbursement of Relief Association Funds

Condition: During the current audit period and subsequent to the period under review, the relief association disbursed four payments totaling \$28,500 and one payment for \$2,000, respectively, to the affiliated fire company to assist with the fire company's general operations. The documentation provided stated that the disbursements were for loans; however, there was only one promissory note for \$5,000 provided between the relief association and the affiliated fire company. The affiliated fire company bank statements were requested to verify that the monies were deposited into the fire company account; however, the request was not honored. In 2017, the relief association received two payments totaling \$9,000 to partially repay the disbursements leaving a balance of \$21,500.

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 of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

- (11) To purchase safeguards for preserving life, health and the 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 the Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving any money under the Act of June 28, 1895 (P.L. 408), as amended, 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 disbursements to the affiliated fire company was for the benefit of the 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, detailed minutes of meetings that document evidence that relief association business was presented before the membership for approval does not exist in some instances.

TILBURY FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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. In addition, because of the lack of adequate internal controls, relief association officials could not be assured that relief association funds were properly protected. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association be reimbursed \$21,500 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. In addition, relief association officials should establish adequate internal controls procedures to ensure that the relief association disbursements are made in accordance with Act 118, and that relief association assets are adequately protected. 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: 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.

TILBURY FIRE COMPANY RELIEF ASSOCIATION
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.

TILBURY FIRE COMPANY RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2018

Cash	<u>\$ 9,778</u>
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TILBURY FIRE COMPANY RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 2,806
Fire Services:	
Equipment purchased	\$ 3,583
Equipment maintenance	1,367
Training expenses	512
Total Fire Services	\$ 5,462
Administrative Services:	
Other administrative expenses	\$ 1,348
Bond premiums	210
Total Administrative Services	\$ 1,558
Other Expenditures:	
Miscellaneous * – Finding No. 2	\$ 28,500
Total Expenditures	\$ 38,326

*The relief association inappropriately disbursed \$28,500 to the affiliated fire company during the current audit period. These disbursements were categorized as miscellaneous expenses and the issue was disclosed in Finding No. 2 of this audit report.

TILBURY FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ms. Stefanie J. Salavantis
Luzerne County District Attorney

Tilbury Volunteer Fire Company Relief Association Governing Body:

Mr. Peter Kruscavage
President

Mr. Jordan Kruscavage
Secretary

Mr. John Traher
Treasurer

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

Mr. Steven Grzymiski
Secretary
Plymouth 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.