

COMPLIANCE AUDIT

Troy Volunteer Firemen's Relief Association

Bradford County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2017

January 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Ben Krise, President
Troy Volunteer Firemen's
Relief Association
Bradford County

We have conducted a compliance audit of the Troy Volunteer Firemen'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 Firemen's 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 finding 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 a portion of the investment balance directly from the financial institution. 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 \$143,533 and an investment balance with a fair value of \$79,918, we were not able to verify the cash balance and a portion of the investment 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, 2015 to December 31, 2017:

- The relief association took appropriate corrective action to address the finding 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 – Untimely Receipt And Deposit Of State Aid

Finding No. 2 – 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.

December 19, 2018



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>
Armenia Township	Bradford	\$ 2,138	\$ 2,155	\$ 2,105
Burlington Borough	Bradford	\$ 775	\$ 775	\$ 758*
Burlington Township	Bradford	\$ 1,152	\$ 1,156	\$ 1,175
Columbia Township	Bradford	\$ 6,669	\$ 6,761	\$ 7,043
Granville Township	Bradford	\$ 5,669	\$ 5,639	\$ 5,692
Springfield Township	Bradford	\$ 2,371	\$ 2,366	\$ 2,494
Sylvania Borough	Bradford	\$ 1,017	\$ 1,019	\$ 975
Troy Borough	Bradford	\$ 6,688	\$ 6,647	\$ 6,151
Troy Township	Bradford	\$10,394	\$10,486	\$10,441
West Burlington Township	Bradford	\$ 4,043	\$ 4,028	\$ 3,887

* The 2017 state aid allocation received from Burlington Borough was not deposited by the relief association until January 10, 2018 as disclosed in Finding No. 1 in this report.

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:

Oscoluwa Engine and Hose Company, which is also known as the

Troy Volunteer Fire Department

TROY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Payment Of Pennsylvania Sales Tax

By furnishing the state sales tax exemption number to all vendors from which the relief association purchases equipment. In addition, the relief association received reimbursement of \$2,345 in sales tax it paid to vendors.

TROY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Receipt And Deposit Of State Aid

Condition: Although Burlington Borough prepared and returned a Certification Form AG 385 for 2017 by the March 31 annual filing date in accordance with Act 205, the borough did not distribute the 2017 state aid to the relief association in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 25, 2017, who forwarded this state aid to the relief association on December 28, 2017, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). The relief association did deposit the 2017 state aid allocation it received from Burlington Borough, in the amount of \$758, on January 10, 2018; however, since there was no documentation indicating that the relief association attempted to retrieve the funds, the relief association did not ensure the funds were received and deposited timely.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: Relief association officials failed to establish internal control procedures to ensure that all income due the relief association was received, recorded and deposited into a relief association account in a timely manner.

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely receipt and deposit of all future income received. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

TROY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
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 – 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 \$100,000; however, as of December 31, 2017, the relief association's cash assets total \$143,533.

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

. . . 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.

TROY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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.

TROY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 143,533
Fair Value of Investments	<u>79,918</u>
Total Cash and Investments	<u><u>\$ 223,451</u></u>

TROY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:

Insurance premiums	\$ 18,600
Tokens of sympathy and goodwill	1,361
Total Benefit Services	<u>\$ 19,961</u>

Fire Services:

Equipment purchased	\$ 24,572
Equipment maintenance	17,908
Training expenses	923
Fire prevention materials	4,701
Total Fire Services	<u>\$ 48,104</u>

Administrative Services:

Other administrative expenses	\$ 1,516
Bond premiums	500
Total Administrative Services	<u>\$ 2,016</u>

Total Expenditures	<u><u>\$ 70,081</u></u>
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TROY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Troy Volunteer Firemen's Relief Association Governing Body:

Mr. Ben Krise
President

Mr. Jason Salle
Vice President

Ms. Donna Vincent
Secretary

Ms. Lou Ann Vargson
Treasurer

TROY VOLUNTEER FIREMEN’S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Mr. Gary Horning
Secretary
Armenia Township

Ms. Kay Smith
Secretary
Burlington Borough

Ms. Jennifer Chilson
Secretary
Burlington Township

Ms. Elizabeth Woolf
Secretary
Columbia Township

Ms. Lori Saxton
Secretary
Granville Township

Ms. Haley P. Robson
Secretary
Springfield Township

Ms. Linda Lawrence
Secretary
Sylvania Borough

Mr. Daniel Close
Secretary
Troy Borough

Ms. Lonna Bly
Secretary
Troy 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.