

COMPLIANCE AUDIT

Volunteer Firemen's Relief Association of the Union Fire & Hose Co. #1 of Dover York County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

May 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Ms. Louise Yingling, President
Volunteer Firemen's Relief Association of the
Union Fire & Hose Co. #1 of Dover
York County

We have conducted a compliance audit of the Volunteer Firemen's Relief Association of the Union Fire & Hose Co. #1 of Dover (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, 2014 to December 31, 2016.

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.

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, for the period January 1, 2014 to December 31, 2016, 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 – Insufficient Surety (Fidelity) Bond Coverage
- Finding No. 2 – Relief Association Financial Accounts Inappropriately Registered Under Affiliated Fire Service Organization’s Federal Tax Identification Number
- Finding No. 3 – Undocumented Expenditure

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.

May 8, 2017


EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Findings and Recommendations:	
Finding No. 1 – Insufficient Surety (Fidelity) Bond Coverage	3
Finding No. 2 – Relief Association Financial Accounts Inappropriately Registered Under Affiliated Fire Service Organization’s Federal Tax Identification Number	4
Finding No. 3 – Undocumented Expenditure	5
Supplementary Financial Information	6
Report Distribution List	8

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. The relief association's bylaws define the specific operational procedures by which the relief association conducts 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 the relief association 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>2014</u>	<u>2015</u>	<u>2016</u>
Dover Borough	York	\$11,032	\$10,517	\$10,460

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:

Union Fire & Hose Co. #1 of Dover

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
UNION FIRE & HOSE CO. # 1 OF DOVER
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – 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 \$33,000; however, as of December 31, 2016, the relief association's cash assets totaled \$45,561.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) 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.

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.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
UNION FIRE & HOSE CO. # 1 OF DOVER
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Relief Association Financial Accounts Inappropriately Registered Under
Affiliated Fire Service Organization's Federal Tax Identification Number**

Condition: As of December 31, 2016, the relief association held a checking account, savings account and Certificates of Deposit, all totaling \$69,796, which were inappropriately registered under the fire company's federal tax identification number rather than the relief association's identification number. These financial accounts represent 100 percent of the relief association's total assets.

Criteria: Prudent business practice dictates that the relief association maintain ownership of all financial accounts as a means of safeguarding its assets from unauthorized use or disposition.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that the cash and investments purchased were registered with the relief association's federal tax identification number.

Effect: As a result of the cash and investments being inappropriately registered under another entity's federal tax identification number, these relief association assets were not properly safeguarded.

Recommendation: We recommend that the relief association officials secure ownership rights to all monetary assets. This requirement can be accomplished by ensuring that all cash and investments are registered under the relief association's federal tax identification number. 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, on May 3, 2017, the relief association closed all cash and investment accounts with the financial institution and opened new accounts with the relief association's appropriate corrected federal tax identification number.

Auditor's Conclusion: We reviewed documentation verifying that the relief association's cash and investment accounts are registered properly under the relief association's federal tax identification number. Continued compliance will be subject to verification through our next audit.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
UNION FIRE & HOSE CO. # 1 OF DOVER
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$500 paid to a relief member on June 9, 2014 that, according to relief association officials, was for training.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) 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 an invoice and training certificate, 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: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Due to the lack of supporting documentation, such as an invoice and training certificate, we were unable to determine if the expenditure was made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). 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.

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as an invoice and training certificate, to ensure the propriety of the expenditure or that the relief association be reimbursed \$500 for the undocumented expenditure. 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 indicated they will take action to comply with the recommendation.

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

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
UNION FIRE & HOSE CO. # 1 OF DOVER
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2016

Cash	\$ 45,561
Fair Value of Investments	<u>24,235</u>
Total Cash and Investments	<u>\$ 69,796</u>

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
 UNION FIRE & HOSE CO. # 1 OF DOVER
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 2016

Expenditures:

Benefit Services:	
Insurance premiums	<u>\$ 11,566</u>
Fire Services:	
Equipment purchased	\$ 3,951
Training expenses	<u>424</u>
Total Fire Services	<u>\$ 4,375</u>
Administrative Services:	
Officer compensation	\$ 120
Bond premiums	<u>218</u>
Total Administrative Services	<u>\$ 338</u>
Other Expenditures:	
Undocumented expenditure	<u>\$ 500</u>
 Total Expenditures	 <u><u>\$ 16,779</u></u>

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
UNION FIRE & HOSE CO. # 1 OF DOVER
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Volunteer Firemen's Relief Association of the Union Fire & Hose Co. #1 of Dover Governing
Body:

Ms. Louise Yingling
President

Mr. Thomas Strine
Vice President

Ms. Cathy Strine
Treasurer

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

Ms. Rebecca Hartzler
Secretary
Dover Borough

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.