

COMPLIANCE AUDIT

Waynesboro Fireman's Relief Association

Franklin County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2019

January 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Jody Sanders, President
Waynesboro Fireman's Relief Association
Franklin County

We have conducted a compliance audit of the Waynesboro 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, 2017 to December 31, 2019.

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, nor was it required to be, 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 an independent confirmation of a portion of the cash balance and the investment balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2019, the relief association had a cash balance of \$138,003 and an investment balance with a fair value of \$67,768, we were not able to verify portions of 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, 2017 to December 31, 2019:

- The relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding 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 – Failure To Adhere To Relief Association Bylaws

Finding No. 2 – Undocumented Expenditures

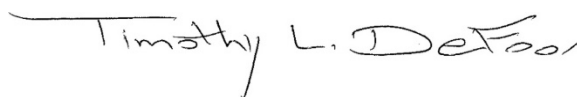
Finding No. 3 – Duplicate Payment

Finding No. 4 – Inappropriate Signatory Authority For The Disbursement Of Funds

Finding No. 5 – Failure To Maintain A Complete And Accurate Equipment Roster

The five findings contained in this report cite conditions that existed in the operation of the relief association 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.

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.



TIMOTHY L. DEFOOR
Auditor General

January 8, 2021

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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>2017</u>	<u>2018</u>	<u>2019</u>
Quincy Township	Franklin	\$ 7,064	\$ 6,521	\$ 7,226
Washington Township	Franklin	\$12,631	\$11,535	\$12,353
Waynesboro Borough	Franklin	\$35,815	\$32,289	\$34,666

Based on the relief association's records, its total cash and investments as of December 31, 2019 were \$205,771, as illustrated below:

Cash	\$ 138,003
Fair Value of Investments	<u>67,768</u>
Total Cash and Investments	<u><u>\$ 205,771</u></u>

BACKGROUND – (Continued)

Based on the relief association's records, its total expenditures for the period January 1, 2017 to December 31, 2019 were \$171,426, as noted below. The accuracy of these expenditures was evaluated as part of the Department's audit to conclude on the relief association's compliance 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.¹ **The scope of the Department's audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Benefit Services:	
Insurance premiums	\$ 15,759
Death benefits	2,500
Total Benefit Services	<u>\$ 18,259</u>
Fire Services:	
Equipment purchased	\$ 105,770
Equipment maintenance	26,111
Training expenses	12,605
Total Fire Services	<u>\$ 144,486</u>
Administrative Services:	
Officer compensation	\$ 4,800
Other administrative expenses	1,980
Bond premiums	300
Total Administrative Services	<u>\$ 7,080</u>
Other Expenditures:	
Miscellaneous	\$ 686
Undocumented expenditures – Finding No. 2	355
Duplicate expenditure – Finding No. 3	560
Total Other Expenditures	<u>\$ 1,601</u>
Total Expenditures	<u><u>\$ 171,426</u></u>

¹ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

BACKGROUND – (Continued)

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:

Waynesboro Ambulance Squad, Inc.

Waynesboro Volunteer Fire Department

WAYNESBORO FIREMAN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Untimely Deposit Of State Aid

By timely depositing all income received.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with the remaining prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure To Adhere To Relief Association Bylaws

We are concerned by the relief association's failure to correct this previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

WAYNESBORO FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Adhere To Relief Association Bylaws

Condition: The relief association did not adhere to a provision in the association's bylaws. Relief association officials were unable to provide meeting minutes to demonstrate that officers' compensation benefits paid in 2018 were approved. Furthermore, the existing bylaws of the relief association do not clearly address the payment of annual compensation such as amounts or frequency payments are to be made to the officers.

A similar condition was noted in our prior audit report.

Criteria: The relief association's bylaws at Article IV, states:

Reasonable compensation as set from time to time by the members at the regular meeting held in November for the President, Vice-President, Secretary, Treasurer and the Chairman of the Board of Directors. [*sic*]

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

- (10) Contain such other provisions as may, to the membership, seem appropriate or necessary to the orderly conduct of affairs of the association.

Cause: Relief officials did not provide a reason for why this occurred despite being notified of this condition during our prior audit.

Effect: As a result of the mandatory provision not sufficiently being documented 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.

WAYNESBORO FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
03/14/18	N/A	Dominos Pizza	\$ 68
01/28/19	N/A	Pilot Supply	287
Total			<u>\$ 355</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.

Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: The relief association officials did not provide a reason for why this occurred.

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.

Recommendation: We 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 \$355 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.

WAYNESBORO FIREMAN'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.

Finding No. 3 – Duplicate Payment

Condition: On May 16, 2019, the relief association expended \$560 for two face piece assemblies for masks. On September 3, 2019, the relief association erroneously made a duplicate payment for the same purchase. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment. The relief association failed to obtain reimbursement for the duplicate payment during the current audit period.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices and to ensure duplicate payments are recouped.

Cause: The relief association officials did not provide a reason for why this occurred.

Effect: As a result of failing to obtain reimbursement for the erroneous payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$560 for the erroneous duplicate payment. The relief association officials should consider contacting the vendor to recover the duplicate payment. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association 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 did not agree with the finding as presented at the audit exit conference and stated that the vendor applied the initial payment to other invoices the treasurer was unaware of and that the second payment of \$560 was applied in its entirety to a single invoice.

Auditor's Conclusion: The documentation provided to our auditors by the treasurer subsequent to conclusion of the audit fieldwork did not sufficiently validate that a reimbursement payment was applied by the vendor in the amount paid erroneously on May 16, 2019. Compliance will be subject to verification through our next audit.

WAYNESBORO FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified three checks out of 27 randomly selected checks drawn from the relief association's checking account that did not contain the proper signatory authority. The three checks contained the signature of only one relief association officer instead of two authorized signatures, with one of the signatures being that of the disbursing officer, as required by Act 118. Furthermore, it was not possible to determine if 70 additional checks issued during the audit period were properly authorized by the appropriate individuals as they did not contain any signatures. Instead, the check signature lines were marked with the typed statement, "SIGNATURE ON FILE."

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, the relief association's bylaws at Article 3, Section 8 states:

The signatures of two officers, one of whom shall be the treasurer, shall be required for the issuance of Relief Association checks, withdrawals or any other negotiable instrument issued by the relief association.

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.

Cause: The relief association officials stated the above documented procedures made it easier to disburse checks. It appears it may have been due to a lack of availability of check signers when signatures were needed and a bank signature card that did not utilize the two signature requirement.

Effect: As a result of the relief association officer issuing checks without signatures or only one signature, assets were placed at greater risk as expenditures were being made without any signatures or 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.

WAYNESBORO FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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. In addition, relief officials should ensure that bank signature cards are updated to require two signatures on all negotiable instruments. 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. Relief association officials indicated the issue has been resolved by updating the bank signature card to utilize the two signer requirement and that all written checks will be signed by two officers.

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

Finding No. 5 – 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, this listing was incomplete and did not accurately identify all of the equipment owned by the relief association. The relief association purchased \$106,083 of equipment during the current audit period, but the equipment for \$10,025 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.

WAYNESBORO FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (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: The relief association officials did not provide a reason for why this occurred.

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.

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.

WAYNESBORO FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Waynesboro Fireman's Relief Association Governing Body:

Mr. Jody Sanders
President

Mr. Gerald Smith
Vice President

Mr. Arley Scott
Secretary

Mr. John R. Beck
Treasurer

Mr. Andrew J. Gilliland
Director

Mr. David Martin
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Mr. Brian Starliper
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Mr. Dustin Jack
Director

Mr. Rusty Dawson
Director

Mr. Aaron Baginski
Director

WAYNESBORO FIREMAN'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:

Ms. Laura Justus
Secretary
Quincy Township

Ms. Karen Hargrave
Secretary
Washington Township

Ms. Melinda Knott
Secretary
Waynesboro 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.