

COMPLIANCE AUDIT

Weaverland Valley Fire Department Volunteer Firefighter Relief Association Lancaster County, Pennsylvania For the Period October 1, 2014 to December 31, 2016

January 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Michael Bojako, President
Weaverland Valley Fire Department
Volunteer Firefighter Relief Association
Lancaster County

We have conducted a compliance audit of the Weaverland Valley Fire Department Volunteer Firefighter 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 October 1, 2014 to December 31, 2016.

The objective 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 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 an independent confirmation of a portion of the cash balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2016, the relief association had a cash balance of \$44,956, we were not able to verify a portion of this cash balance.

We were also not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matters described in the preceding paragraphs, for the period October 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 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle
- Finding No. 2 – Untimely Deposit Of State Aid
- Finding No. 3 – Failure To Maintain A Complete And Accurate Equipment Roster
- Finding No. 4 – Relief Association Checking Account Inappropriately Registered Under Affiliated Fire Service Organization's Federal Tax Identification Number

As further described in the Background section of this report, the findings contained in this report cite conditions that existed in the operation of the now closed relief associations from which the relief association received monetary assets and equipment during the prior 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 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.

January 11, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
East Earl Township	Lancaster	\$18,594	\$18,103	\$18,085
Terre Hill Borough	Lancaster	\$ 7,947	\$ 7,636	\$7,607*

* The 2016 state aid allocation received from Terre Hill Borough was not deposited by the relief association until February 1, 2017 as disclosed in Finding No. 2 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:

Weaverland Valley Fire Department

The Weaverland Valley Fire Department Volunteer Firefighter Relief Association was established through bylaws adopted on October 7, 2014. Prior to beginning operations, the relief association received monetary assets and equipment from the former Relief Fund Association of Terre Hill Relief Company and the former Goodville Fireman’s Relief Association. We were concerned with these former volunteer firefighters’ relief associations’ failure to correct previously reported audit findings resulting from the final audits conducted of these former entities and recommended that the newly formed Weaverland Valley Firefighters’ Relief Association’s management strive to implement the recommendations and corrective actions noted in each of these former relief associations’ final audit reports. The relief association’s corrective action is discussed in the Status of Prior Findings section of this report.

WEAVERLAND VALLEY FIRE DEPARTMENT VOLUNTEER FIREFIGHTER RELIEF
ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

Former Terre Hill Volunteer Firefighters' Relief Association:

- Improper Merger

By amending its current bylaws and obtaining an officer's Surety (Fidelity) bond policy. Other recommendations in this prior audit finding that were not implemented have been addressed in the current Findings and Recommendations portion of this audit.

- 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 the prior audit findings and recommendations of these former entities, as follows:

Former Terre Hill Volunteer Firefighters' Relief Association:

- Untimely Deposit Of State Aid

Although all state aid was distributed and accounted for, the relief association failed to deposit their 2016 state aid from Terre Hill Borough in a timely manner as disclosed in Finding No. 2.

- Failure To Maintain A Complete And Accurate Equipment Roster

Although an equipment roster was provided during the prior audit period, it was incomplete as it did not include all pertinent information. During the current audit period no equipment roster was provided as disclosed in Finding No. 4.

WEAVERLAND VALLEY FIRE DEPARTMENT VOLUNTEER FIREFIGHTER RELIEF
ASSOCIATION
STATUS OF PRIOR FINDINGS

Former Goodville Volunteer Firefighters' Relief Association:

- Failure To Maintain A Complete And Accurate Equipment Roster

Although cited in the prior audit, the relief association again failed to provide an equipment roster to show the transfer of equipment to the newly formed relief association.

- Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Although cited in the prior audit, the relief association failed to provide an agreement and evidence to show the transfer of the vehicle to the newly formed relief association.

WEAVERLAND VALLEY FIRE DEPARTMENT VOLUNTEER FIREFIGHTER RELIEF
ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Condition: As disclosed in the Status of Prior Findings section of this report, the former Goodville relief association expended \$36,000 between 2007 through 2012 for the purpose of jointly purchasing a 2007 KME Tanker with the affiliated fire company. However, the former Goodville relief association failed to enumerate the percentage of ownership in the vehicle in a formal agreement. While an agreement was provided by Weaverland relief association as recommended in the close-out audit of the former Goodville relief association, the agreement provided by Weaverland relief association did not document the correct amount contributed to the vehicle nor did it list the percentage of ownership.

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.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold.

Cause: Relief association officials failed to adequately secure its proportional ownership interest in the jointly purchased vehicle.

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicle places the relief association's ownership interest at greater risk.

WEAVERLAND VALLEY FIRE DEPARTMENT VOLUNTEER FIREFIGHTER RELIEF
ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the relief association officials complete the following for the joint purchase of the 2007 KME Tanker:

- Execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased vehicle. The relief association paid \$36,000 towards the vehicle that cost \$104,199 which gives the relief the right to receive a pro-rata share of 35% if the vehicle is ever sold.

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.

Finding No. 2 – Untimely Deposit Of State Aid

Condition: As disclosed in the Status of Prior Findings section of this report, the relief association did not deposit the 2016 state aid allocation it received from Terre Hill Borough, in the amount of \$7,607, until February 1, 2017. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 20, 2016, who forwarded this state aid to the relief association on November 8, 2016, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Upon receipt of the state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

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.

WEAVERLAND VALLEY FIRE DEPARTMENT VOLUNTEER FIREFIGHTER RELIEF
ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, prudent business practices dictate 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 which require that all income received be recorded and deposited in a timely manner.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts 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 deposit of all income received. 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.

Finding No. 3 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: As disclosed in the Status of Prior Findings section of this report, the relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Specifically, the relief association purchased \$65,530 of equipment during the current audit period and there was no equipment roster created or maintained for these purchases. 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.

WEAVERLAND VALLEY FIRE DEPARTMENT VOLUNTEER FIREFIGHTER RELIEF
ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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: Relief association officials 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 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.

WEAVERLAND VALLEY FIRE DEPARTMENT VOLUNTEER FIREFIGHTER RELIEF
ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – Relief Association Checking Account Inappropriately Registered Under
Affiliated Fire Service Organization’s Federal Tax Identification Number**

Condition: As of December 31, 2016, the relief association held two checking accounts, with a total value of \$44,956 which were inappropriately registered under the fire company's federal tax identification number, rather than the relief association’s identification number. These accounts represent 100% percent of the relief association’s total assets.

Criteria: Prudent business practice dictates that the relief association maintain ownership of all investments 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 investments purchased were registered with the relief association’s federal tax identification number.

Effect: As a result of the 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 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 indicated they will take action to comply with the recommendation.

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

WEAVERLAND VALLEY FIRE DEPARTMENT VOLUNTEER FIREFIGHTER RELIEF
ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2016

Cash	<u>\$ 44,956</u>
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WEAVERLAND VALLEY FIRE DEPARTMENT VOLUNTEER FIREFIGHTER RELIEF
ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD OCTOBER 1, 2014 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 20,526
Fire Services:	
Equipment purchased	\$ 65,530
Administrative Services:	
Bond premiums	\$ 250
Other Expenditures:	
Miscellaneous*	\$ 20,000
Total Expenditures	\$ 106,306

* On March 21, 2014, the relief association expended \$20,000 to purchase rescue equipment/tools for the affiliated fire company. On July 24, 2014, the affiliated fire company reimbursed the relief association for these expenditures.

WEAVERLAND VALLEY FIRE DEPARTMENT VOLUNTEER FIREFIGHTER RELIEF
ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Weaverland Valley Fire Department Volunteer Firefighter Relief Association Governing Body:

Mr. Michael Bojako
President

Mr. Lee Stoltzfus
Vice President

Mr. Calvin Martin
Secretary

Mr. Josh Hollinger
Treasurer

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

Ms. Connie J. Gross
Secretary
East Earl Township

Ms. Valerie L. Gregory
Secretary
Terre Hill 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.