

COMPLIANCE AUDIT

West Hempfield Fire & Rescue Company Firefighters Relief Association Lancaster County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

August 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Nathan Charles, President
West Hempfield Fire & Rescue Company
Firefighters Relief Association
Lancaster County

We have conducted a compliance audit of the West Hempfield Fire & Rescue Company Firefighters 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, 2018 to December 31, 2020.

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, 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 objective. We believe that our audit provides a reasonable basis for our conclusions.

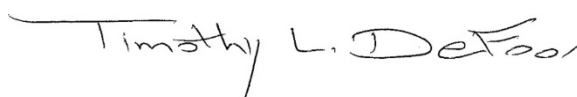
We were not able to obtain an independent confirmation of the cash balance and the investment balance directly from the financial institution. Therefore, while the relief association provided bank and investment statements that indicated that, as of December 31, 2020, the relief association had a cash balance of \$101,202 and an investment balance with a fair value of \$200,115, we were not able to verify 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, 2018 to December 31, 2020, 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, 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 – Undocumented Expenditures
- Finding No. 3 – Failure To Deposit Proceeds From The Sale Of Jointly Purchased Vehicles
- Finding No. 4 – Failure To Maintain A Complete And Accurate Equipment Roster
- Finding No. 5 – Failure To Maintain A Complete And Accurate Membership 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

August 11, 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
West Hempfield Township	Lancaster	\$80,455	\$88,332	\$89,075

Based on the relief association's records, its total cash and investments as of December 31, 2020 were \$301,317, as illustrated below:

Cash	\$ 101,202
Fair Value of Investments	<u>200,115</u>
Total Cash and Investments	<u>\$ 301,317</u>

BACKGROUND – (Continued)

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$543,793, 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	\$	20,885
Relief benefits		4,792
Tokens of sympathy and goodwill		183
Total Benefit Services	\$	<u>25,860</u>

Fire Services:

Equipment purchased	\$	206,769
Equipment maintenance		20,100
Training expenses		11,219
Fire prevention materials		1,385
Total Fire Services	\$	<u>239,473</u>

Administrative Services:

Other administrative expenses*	\$	5,065
Bond premiums		2,124
Total Administrative Services	\$	<u>7,189</u>

Total Investments Purchased	\$	<u>100,000</u>
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Other Expenditures:

Undocumented expenditures	\$	<u>171,271</u>
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Total Expenditures	\$	<u><u>543,793</u></u>
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* A portion of the other administrative expenses represent accounting services, finalizing records, and preparation of IRS Form 990 in the amount of \$5,050.

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 organization are separate, legal entities. The relief association is affiliated with the following fire service organization:

West Hempfield Fire And Rescue Company

WEST HEMPFIELD FIRE & RESCUE COMPANY FIREFIGHTERS RELIEF
ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: On March 14, 2018 and February 25, 2019, the relief association expended \$86,700 and \$47,266, respectively, for the purpose of jointly purchasing a vehicle with the affiliated fire company. However, the relief association did not adequately secure its ownership interest in this jointly purchased vehicle as the vehicle was titled solely in the name of the affiliated fire company.

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.

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

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.

Recommendation: We recommend that the relief association officials execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$133,966 (\$86,700 + \$47,266). For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

WEST HEMPFIELD FIRE & RESCUE COMPANY FIREFIGHTERS 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, as a result of our audit, the relief association officials were able to locate a signed agreement dated May 8, 2019 and provided it to our Department on August 18, 2021.

Auditor’s Conclusion: We reviewed the agreement verifying the appropriate signatures. Compliance for securing ownership interest in jointly purchased vehicles made during the next audit period will be subject to verification through our next audit.

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:

Date	Check No.	Payee Description	Amount
03/14/2018	2432	Vehicle vendor	\$ 86,700
07/26/2018	2463	Equipment vendor	305
02/25/2019	2523	Vehicle vendor	47,266
06/16/2020	2645	Vehicle vendor	37,000
Total			<u>\$ 171,271</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.

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

WEST HEMPFIELD FIRE & RESCUE COMPANY FIREFIGHTERS RELIEF
ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: The relief association officials stated that the reason for why this occurred was misplaced invoices.

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 \$171,271 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.

Management’s Response: Relief association management agreed with the finding as presented at the audit exit conference and, subsequent to the period under review and as a result of our audit, the affiliated fire company reimbursed the relief association \$305 for one undocumented expenditure on July 26, 2021, and the relief association provided this department with adequate supporting documentation to ensure the propriety of the expenditures of \$86,700 and \$47,266 on July 26, 2021. In addition, on August 11, 2021, the relief association provided this department with adequate supporting documentation to ensure the propriety of the \$37,000 expenditure.

Auditor’s Conclusion: We reviewed documentation verifying that the reimbursement of \$305 was received and the supporting documentation verifying the propriety of the three other expenditures. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

WEST HEMPFIELD FIRE & RESCUE COMPANY FIREFIGHTERS RELIEF
ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Deposit Proceeds From The Sale Of Jointly Purchased Vehicles

Condition: In 2002, the relief association had expended \$2,253 towards the joint purchase of a 2002 Ford vehicle with the affiliated fire company which had a total cost of \$71,122. The relief association entered into an agreement with the affiliated fire company dated March 17, 2004 whereby the relief association would receive the pro-rata share percentage of 3.17% if the vehicle was ever sold. During the current audit period, the jointly purchased vehicle was sold for \$35,000; however, the relief association did not receive and deposit its proportional ownership interest of the proceeds totaling \$1,110 from the sale of the jointly purchased vehicle.

In addition, in 2003, the relief association had expended \$749 towards the joint purchase of a 2000 Ford vehicle with the affiliated fire company which had a total cost of \$21,232. The relief association entered into an agreement with the affiliated fire company dated March 17, 2004 whereby the relief association would receive the pro-rata share percentage of 3.53% if the vehicle was ever sold. During the current audit period, this jointly purchased vehicle was sold for \$5,000; however, the relief association did not receive and deposit its proportional ownership interest of the proceeds totaling \$177 from the sale of the jointly purchased vehicle.

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.

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. Once the vehicle is sold, the relief association officials should closely monitor all sales to ensure proceeds are received and timely deposited into a relief association account.

WEST HEMPFIELD FIRE & RESCUE COMPANY FIREFIGHTERS RELIEF
ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: The relief association officials stated the cause for this is due to the overturn of officers and the current officers being unaware of the agreements that were in place for these two vehicles.

Effect: The failure to receive and deposit the proceeds from the sale of a jointly purchased vehicles with the affiliated fire company places the relief association's ownership interest at greater risk. As a result, the relief association was unable to use the funds for general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed for its pro-rata share of the proceeds totaling \$1,287 (1,110 + 177) from the sale of the jointly purchased vehicles. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all future proceeds resulting from the sale of a jointly purchased vehicle are timely deposited in a relief association account. 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 July 26, 2021 the affiliated fire company reimbursed the relief association \$1,110 for the sale of the 2002 Ford vehicle and \$177 for the 2000 Ford vehicle.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$1,110 and \$177 was received. Compliance for ownership agreements related to equipment purchases made during the next audit period will be subject to verification through our next audit.

Finding No. 4 – 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, it was incomplete because it did not contain all the names of suppliers (vendors), dates of purchase, cost of equipment and serial numbers to accurately identify equipment owned by the relief association. As such, it was impossible to determine if all equipment purchased during the audit period in the amount of \$206,769 was recorded.

WEST HEMPFIELD FIRE & RESCUE COMPANY FIREFIGHTERS RELIEF
ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (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 indicated that they were unaware that the data on the equipment roster was not complete.

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.

WEST HEMPFIELD FIRE & RESCUE COMPANY FIREFIGHTERS RELIEF
ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members' mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials indicated that the roster was not available at the time of the audit.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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, provided this department with a membership roster on July 26, 2021.

Auditor's Conclusion: We reviewed the supporting documentation verifying the propriety of the membership roster. Compliance for maintaining an appropriate membership roster during the next audit period will be subject to verification through our next audit.

WEST HEMPFIELD FIRE & RESCUE COMPANY FIREFIGHTERS RELIEF
ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

West Hempfield Fire & Rescue Company Firefighters Relief Association Governing Body:

Mr. Nathan Charles
President

Mr. Duane Kline
Vice President

Ms. Brenda Sauder
Secretary

Mr. Phill Wright
Treasurer

Mr. Ivan D. Forry
Assistant Treasurer

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

Mr. Andrew Stern
Secretary
West Hempfield 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.