

COMPLIANCE AUDIT

Winfield Township Volunteer Fireman's Relief Association Butler County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

October 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Walter Hartman, President
Winfield Township Volunteer Fireman's
Relief Association
Butler County

We have conducted a compliance audit of the Winfield Township Volunteer 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, 2014 to December 31, 2016.

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 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 copies of canceled or imaged checks from the relief association. While the relief association provided copies of 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 paragraph, for the period January 1, 2014 to December 31, 2016:

- The relief association took appropriate corrective action to address one of the four findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to fully address the three remaining findings 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 – Partial Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment
Roster

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Minutes of Meetings

Finding No. 4 – Failure to Maintain a Complete and Accurate Membership
Roster

Three of the four prior audit findings contained in this report cite conditions that existed in the operation of the relief association and were communicated as findings 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 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.

August 28, 2017

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

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Partial Noncompliance With Prior Audit Recommendation – Undocumented Expenditures	5
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster	6
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Minutes Of Meetings	8
Finding No. 4 – Failure To Maintain A Complete And Accurate Membership Roster	9
Supplementary Financial Information	10
Report Distribution List	12

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>2014</u>	<u>2015</u>	<u>2016</u>
Winfield Township	Butler	\$21,823	\$21,585	\$21,540

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:

Winfield Township Volunteer Fire Company

WINFIELD TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Inadequate Financial Record-Keeping System

By establishing and maintaining a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations and provides effective control over cash receipts, disbursements, and assets except as noted below.

PARTIAL NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association partially complied with one of the four prior audit findings. The finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Undocumented Expenditures

As disclosed in the prior audit report, the relief association was unable to provide adequate supporting documentation for expenditures made during the two previous audit periods covering January 1, 2008 through December 31, 2010 and January 1, 2011 to December 31, 2013 amounting to \$23,488 in the aggregate. A similar condition occurred during the early stages of the current audit period. The relief association again was unable to provide adequate supporting documentation to support the propriety of an additional \$52,686 of expenditures disbursed during 2014 due to what relief association officials suspected was fraud and/or illegal acts committed by former officials of the relief association. As a result, the relief association procured the services of a certified public accounting firm to conduct an examination of the accounts of record of the relief association as well as the affiliated fire company. Based on the result of this examination, the relief association filed a proof of claim of loss with their insurance carrier and applied \$39,075 of the proceeds received from the insurance carrier to cover current period undocumented expenditures as well as an additional \$3,044 to cover some of the outstanding prior period undocumented expenditures also from the proceeds of this claim. Consequently, based on an analysis of the activity of the relief association prepared by this department, as of the end of our audit period, there remained an outstanding balance of undocumented expenditures from previous audit periods in the amount of \$20,444 and \$13,611 from the current audit period that were not covered by the reimbursement received from the insurance carrier as further disclosed in Finding No. 1 of this report.

WINFIELD TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with two of the four prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure to Maintain a Complete and Accurate Equipment Roster
- Failure to Maintain Minutes of Meetings

We are concerned by the relief association's failure to correct those previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

WINFIELD TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

Condition: As disclosed in the Status of Prior Findings section of this report, the relief association partially complied with our prior audit recommendation by depositing funds representing a portion of the proceeds received from an insurance claim filed with the relief association's insurance carrier amounting to \$3,044 towards the outstanding prior period undocumented expenditures balance of \$23,488. However, prior period undocumented expenditures amounting to \$20,444 remained outstanding as of the end of the current audit period. Additionally, although the relief association applied an additional \$39,075 of the insurance claim proceeds to cover some of the additional undocumented expenditures uncovered during the current audit period amounting to \$52,686, the relief association was again unable to provide adequate supporting documentation to evidence the propriety of the following additional expenditures in accordance with Act 118 disbursed during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
04/10/14	942	Unknown vendor	\$ 3,700
08/30/14	949	Equipment vendor	278
08/30/14	950	Equipment vendor	212
08/30/14	951	Maintenance vendor	481
09/16/14	957	Unknown vendor	8,940
Total			<u>\$ 13,611</u>

Criteria: As previously disclosed, 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 invoices, 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.

WINFIELD TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued):

Cause: As previously disclosed during our prior audit, former relief association officials neglected to follow adequate internal control procedures to ensure supporting documentation is maintained for all expenditures resulting in a similar condition during the early stages of this audit period.

Effect: Lack of supporting documentation, such as invoices and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the continued failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We again recommend that relief association officials provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the remaining outstanding undocumented expenditures or that the relief association be reimbursed \$34,055 for these remaining undocumented expenditures. In addition, 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 based on our audit, subsequent to the current audit period, relief association officials provided additional documentation to support \$20,444 of the outstanding undocumented expenditures from the two previous audits and additional documentation to support \$13,611 of the current period undocumented expenditures evidencing the propriety of these expenditures as recommended.

Auditor's Conclusion: We reviewed documentation verifying the propriety of the remaining outstanding undocumented expenditures amounting to \$34,055 in the aggregate. Continued compliance for expenditures made during the subsequent audit period will be subject to verification through our next audit.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: As cited in the prior audit report, the relief association again did not maintain a complete and accurate roster of equipment owned by the relief association. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all equipment owned by the relief association.

WINFIELD TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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: Even though notified of this condition during our prior audit, relief association officials again 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 continued 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 again 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.

WINFIELD TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Minutes Of Meetings

Condition: As cited in the prior audit report, the relief association again did not maintain minutes of meetings held during the current audit period as required by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

. . . must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to maintain minutes in accordance with Act 118.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We again recommend that the relief association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record of all financial-related business conducted by 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: Compliance will be subject to verification through our next audit.

WINFIELD TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure To Maintain A Complete And Accurate Membership Roster

Condition: 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 they were unaware that they should maintain a comprehensive roster of relief association members

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 indicated they will take action to comply with the recommendation.

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

WINFIELD TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2016

Cash	<u>\$ 45,897</u>
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WINFIELD TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2016

Expenditures:

Fire Services:

Equipment purchased	\$ 56,289
Equipment maintenance	7,207
Training expenses	400
Total Fire Services	<u>\$ 63,896</u>

Administrative Services:

Other administrative expenses	\$ 781
Bond premiums	200
Total Administrative Services	<u>\$ 981</u>

Other Expenditures:

Undocumented expenditures	<u>\$ 13,611</u>
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Total Expenditures	<u><u>\$ 78,488</u></u>
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WINFIELD TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Winfield Township Volunteer Fireman's Relief Association Governing Body:

Mr. Walter Hartman
President

Mr. Adam T. Hartwig
Vice President

Ms. Lisa Hartman
Secretary

Ms. Brianna Hartman
Treasurer

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

Mr. Adam T. Hartwig
Secretary
Winfield 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.