

# COMPLIANCE AUDIT

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## Hampden Township Volunteer Fire Company No. 1 Relief Association, Inc. Cumberland County, Pennsylvania For the Period January 1, 2009 to December 31, 2012

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September 2014



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Mr. Jerry Ozog, President  
HAMPDEN TOWNSHIP VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Cumberland County

We have conducted a compliance audit of the Hampden Township Volunteer Firefighters' 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, 2009 to December 31, 2012.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the finding contained in our prior audit report; and
2. To determine if the volunteer firefighters' relief association received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Hampden Township Volunteer Firefighters' 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. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Hampden Township Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Hampden Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2012, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives.

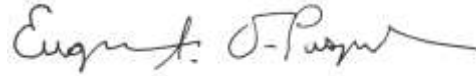
The results of our audit, for the period January 1, 2009 to December 31, 2012, found the Hampden Township Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this report. In addition, the results of our audit found the Hampden Township Volunteer Firefighters' Relief Association, did not, in all significant respects, receive state aid and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report. Therefore, Hampden Township Volunteer Firefighters' Relief Association will be subject to the withholding of its upcoming state-aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

- Finding No. 1 - Noncompliance with Prior Audit Recommendation –  
Unauthorized Expenditures
- Finding No. 2 - Undocumented Expenditures
- Finding No. 3 - Failure to Maintain a Complete and Accurate Equipment  
Roster

The results of our tests also indicated the Hampden Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$428,712 and an investment balance with a fair value of \$707,650.

The contents of this report were discussed with the management of the Hampden Township Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

March 26, 2014

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

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.

Hampden Township Volunteer Fire Company No. 1 Relief Association, Inc., herein referred to as Hampden Township Volunteer Firefighters' 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 the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations, which is or are recognized as providing the service to the municipality.

BACKGROUND (Continued)

The Hampden Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Hampden Township	Cumberland	\$208,963	\$235,200	\$393,074	\$225,835

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Hampden Township Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Hampden Township Volunteer Fire Company No. 1

HAMPDEN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Hampden Township Volunteer Firefighters' Relief Association has not complied with the following prior audit finding and recommendation:

- Unauthorized Expenditures

Although the relief association received reimbursement from the affiliated fire company for the prior period's unauthorized expenditures, the relief association again, expended relief association funds for unauthorized items as disclosed in Finding No. 1 contained in this report.

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



HAMPDEN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures**

Condition: As disclosed in the Status of Prior Finding section of this report, although the relief association received reimbursement from the affiliated fire company for the prior period's unauthorized expenditures, the relief association again, expended relief association funds for the following items that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
09/15/2010	378	Career accident insurance premium	\$ 896
08/11/2011	540	Nutritional food supplements	14,772
10/24/2011	573	Career accident insurance premium	896
02/16/2012	624	Nutritional food supplements	2,196
03/14/2012	636	Pediatric AED supplies	589
03/28/2012	648	Pediatric AED supplies	261
10/02/2012	730	Career accident insurance premium	1,368
11/01/2012	753	Nutritional food supplements	720
Total			<u>\$ 21,698</u>

In addition, subsequent to the audit period, the relief association expended funds for the following item that is not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
09/17/2013	900	Career accident insurance premium	\$ 1,338

HAMPDEN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(2,8,11,12,13) states:

The funds of any volunteer firefighters' relief association may be spent:

- (2) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.
- (8) To contribute to or to purchase contracts of insurance which will contribute to the cost of rehabilitating and retraining volunteer firefighters who, by reason of their participation in the fire service, have suffered a major impairment of the ability to continue their vocation.
- (12) To secure insurance against the legal liability of volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or performing their duties as special fire police.
- (13) To maintain comprehensive health, physical fitness and physical monitoring programs that provide for physical fitness activities, nutrition education and instruction and health and fitness evaluation and monitoring, provided that the programs have been approved by the nearest State-licensed health care facility which is authorized to provide that service.

Costs associated with the purchase of pediatric medical supplies, career (paid) personnel accident and health insurance and nutritional food products do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

HAMPDEN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Cause: Even though notified of this condition during our prior audit, relief association officials neglected the fact that the aforementioned expenditures were not authorized by Act 118.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend the relief association be reimbursed \$23,036 for the unauthorized expenditures and again recommend that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of 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 that expenditures for pediatric supplies and career (paid) firefighter personnel accident and health insurance were not authorized relief association expenditures; and subsequent to our audit period, on April 7, 2014, the relief association obtained reimbursement amounting to \$5,318 from the affiliated fire department. However, relief association officials do not agree with the portion of the finding regarding the nutritional food supplements (i.e. protein bars and shakes) being determined as unauthorized expenditures. Officials indicated that looking at the administratively approved list of authorized expenditures, "Weight Watchers" is described as an authorized expense, with a short comment that "food" is considered unauthorized. Officials contend that "food" is not defined anywhere in the Act or in the administrative list and that "Weight Watcher's food" consists of complete meals like breakfasts, lunches and dinners that you buy in the grocery store and which takes the place of regular food consumption, which is not the case with the "TrimLine" weight loss program. Officials contend that "TrimLine" only provided special dietary supplements (simple protein bars and shakes) that did not take the place of meals. And that this difference, that these supplements are not food as contemplated in the prohibition on the list approving "Weight Watchers", is why "TrimLine" supplements should not be considered "food" as mentioned in the "Guidelines" and therefore, should be an authorized expenditure. Officials respectfully point out that their interpretation should be given difference by the auditors. Officials cite that the "construction" of the law described in Section 7414 states that the law "shall be construed, applied, and interpreted, so far as circumstances permit, as justifying the actions of the officers and members of the relief association affected by it when the actions appear to have been taken in good faith and in the bona fide belief that they were in furtherance of [the law]." And, officials believe that the relief association acted in good faith in deciding to make this expenditure to improve the health of its members which officials contend "which squarely fits within the furtherance of the law" and their decision should be supported by the department.

HAMPDEN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Auditor's Conclusion: We appreciate the relief association's efforts to implement a weight loss program for the volunteer firefighters and commend them for these efforts, however it remains the position of the Department that while Act 118 authorizes expenditures for nutrition education and instruction and health and fitness evaluation and monitoring under the Act, any such programs must be approved by the nearest state-licensed health care facility authorized to provide that service. The purchase of food or nutritional supplements is specifically not included as a permissible expense under the Act; consequently, the finding and recommendation remain as stated. Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

**Finding No. 2 – Undocumented Expenditures**

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
09/15/2010	375	Credit card payment	\$ 249
09/12/2011	552	Weight loss center	<u>3,252</u>
Total			<u>\$ 3,501</u>

In addition, based on Finding No. 1, these undocumented expenditures may also be unauthorized depending on the nature of the expense.

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), [FN1] 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.

HAMPDEN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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

Cause: Relief association officials neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices, 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 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 the relief association provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the expenditures or that the relief association be reimbursed. 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 portion of the finding related to the credit card payment; and therefore, subsequent to the audit period, on February 14, 2014, the relief association obtained reimbursement amounting to \$249 from the affiliated fire department. However, relief association management does not agree with the portion of the finding related to the weight loss center expenditures.

Auditor's Conclusion: Based on the management response, the issue remains as stated and we recommend the relief association provide this department with adequate supporting documentation for the \$3,252 expenditure made to the weight loss center or seek reimbursement, accordingly.

HAMPDEN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster**

Condition: The relief association officials 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 since it did not contain the names of suppliers (vendors), dates of purchase and cost of equipment to accurately identify equipment owned by the relief association. As such, we were unable to determine if all of the equipment purchased during the audit period in the amount of \$377,162 was recorded. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, to account for the relief association's owned equipment.

Criteria: Prudent business practice dictates 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 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; and
- Evidence of the performance and results of an annual physical inventory.

Cause: Relief association officials neglected to establish adequate internal control procedures over equipment requiring the maintenance of a cumulative equipment roster and the performance of an annual 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.

HAMPDEN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Recommendation: We recommend that the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. 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.

HAMPDEN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported in Finding No. 1 contained in this report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.



HAMPDEN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2012

Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 99,761
Relief benefits	32,871
Total Benefit Services	\$ 132,632
Fire Services:	
Equipment purchased	\$ 377,162
Equipment maintenance	80,732
Training expenses	64,147
Fire prevention materials	7,671
Total Fire Services	\$ 529,712
Administrative Services:	
Other administrative expenses	\$ 22,781
Total Investments Purchased:	\$ 641,428
Other Expenditures:	
Interest payments on lease-financing	\$ 3,501

HAMPDEN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Hampden Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Jerry Ozog	President
Mr. Brent Vernon	Vice President
Mr. Michael Taylor	Secretary
Mr. Leroy Weaver	Treasurer

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

Mr. Keith B. Metts Hampden Township	Secretary
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This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).