

COMPLIANCE AUDIT

Kidder Township Volunteer Firemen's Relief Association

Carbon County, Pennsylvania

For the Period

January 1, 2009 to December 31, 2013

November 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Todd Wood, Former President
KIDDER TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Carbon County

We attempted to conduct a compliance audit of the Kidder 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, 2013.

It is the volunteer firefighters' relief association management's responsibility to ensure that for the period January 1, 2009 to December 31, 2013, the volunteer firefighters' relief association took appropriate corrective action to address the finding contained in our prior audit report and that the relief association received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures. It is also management's responsibility to establish and maintain internal controls to provide reasonable assurance that the Kidder 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.

We attempted to conduct this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. The objectives of the audit, as communicated to the volunteer firefighters' relief association, 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 to be limited to the areas related to the objectives identified above. *Government Auditing 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. As described below, we were unable to obtain sufficient, appropriate evidence necessary to conclude on whether the Kidder Township Volunteer Firefighters' Relief Association received state aid and expended state aid and accumulated relief funds for the period January 1, 2009 to December 31, 2013, in compliance with state laws, contracts, bylaws and administrative procedures.

We originally started our audit of the Kidder Township Volunteer Firefighters' Relief Association covering the period January 1, 2009 to December 31, 2011. However, prior to release of the original audit report of the relief association for this period, we received a taxpayer tip alleging misuse of relief association funds and mismanagement within the relief association. As a result, we extended our audit period to include the period January 1, 2012 to December 31, 2013. In attempting to conduct this audit, we were able to obtain relief association records for the period January 1, 2009 to December 31, 2011. However, we were not provided with any of the financial records from the relief association including bank statements, receipts and disbursements journals and ledgers, invoices, etc., supporting the financial activity of the relief association for the additional period. On January 31, 2014, after numerous attempts to locate those formally charged with governance and obtain these additional financial records, the relief association treasurer contacted us and indicated that the former relief association officers left or resigned and took all of the financial records requested by the department for the extended period.

The results of the tests we were able to perform using the records we were able to obtain revealed that the Kidder Township Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the finding contained in our prior audit report and allowed for the identification of the following additional instances of noncompliance and internal control deficiencies that are required to be reported under *Government Auditing Standards*. Other additional internal control deficiencies and instances of noncompliance may have been identified and reported herein if the scope of our work had been sufficient to enable us to conclude on our objective.

Finding No. 1 – Undocumented Expenditure

Finding No. 2 – Overpayment Of Sales Proceeds To Fire Company

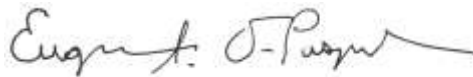
Finding No. 3 – Failure To Maintain A Complete And Accurate Membership Roster

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

As a result of the limitations described above, a portion of state aid will be withheld from Kidder Township that previously provided state aid to this relief association, so that future state aid cannot be allocated to the Kidder Township Volunteer Firefighters' Relief Association until such documentation is provided to evidence the relief association's compliance with Act 118. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Municipal Pension & VFRA Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

The contents of this report were discussed with the treasurer of the Kidder Township Volunteer Firefighters' Relief Association on May 13, 2014. Although we were unable to identify any other officials charged with governance of the relief association, copies of this report will also be mailed to former officers on record of the Kidder Township Volunteer Firefighter's Relief Association and Kidder Township, the municipality that provided state aid to the relief association during our audit period.

June 5, 2013



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 Kidder Township Volunteer Firemen's Relief Association, herein referred to as Kidder 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 Kidder 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>	<u>2013*</u>
Kidder Township	Carbon	\$10,649	\$11,986	\$20,181	\$11,508	\$10,351

* Although we were unable to perform our audit in accordance with Act 118 as previously disclosed in this report, we were able to verify that the relief association received and deposited the state aid allocations received from Kidder Township into a valid relief association account by examining properly endorsed and executed cancelled checks provided by the disbursing municipality. However, although we found no evidence that the Kidder Township Volunteer Firefighters’ Relief Association ceased operations or officially dissolved and merged with another relief association, we were precluded from determining whether any relief association cash assets, including the aforementioned state aid or previously owned equipment remained in the possession of the Kidder Township Volunteer Firefighters’ Relief Association or transferred to another volunteer firefighters’ relief association as of December 31, 2013.

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

The Kidder Township Fire Company No. 1

KIDDER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Kidder Township Volunteer Firefighter's Relief Association has not complied with the prior audit finding and recommendation. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report::

- Failure to Maintain a Complete and Accurate Equipment Roster

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

KIDDER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$1,200 to a fire truck vendor on February 25, 2010.

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.

Without adequate supporting documentation, such as an invoice, 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.

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

Effect: Lack of supporting documentation, such as an invoice, made it impossible to determine if the expenditure was 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 an invoice, to ensure the propriety of the expenditure or that the relief association be reimbursed \$1,200 for the undocumented expenditure. 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 original audit exit conference on July 22, 2013 and disclosed again on May 13, 2014 and indicated they will take action to comply with the recommendation.

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

KIDDER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Overpayment Of Sales Proceeds to Fire Company

Condition: In 2010 the relief association received \$13,000 from the sale of a vehicle owned jointly by the relief association and the affiliated fire company. According to the joint agreement executed between the two fire organizations, the relief association owned 86 percent and the fire company owned 14 percent of the vehicle. Upon the sale of the vehicle, the relief association owed the fire company \$1,820. However, in 2011, the relief association paid the fire company \$4,700. Therefore, the relief association overpaid the fire company \$2,880 from the sale of the jointly owned vehicle.

Criteria: Prudent business practice dictates that the relief association should receive its prorated share of the proceeds upon the sale of jointly held vehicles in accordance with the formal written agreement that enumerates the relief association's proportional ownership interest in such vehicle. In addition, adequate accounting and internal controls should include procedures to prevent the overpayment of such proceeds to affiliated entities.

Cause: The volunteer firefighters' relief association failed to establish adequate internal control procedures that would prevent overpayment of sales proceeds.

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

Recommendation: We recommend the relief association seek reimbursement for the \$2,880 erroneous overpayment. In addition, the relief association should establish sufficient accounting and internal control procedures to monitor future association expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the original audit exit conference on July 22, 2013 and disclosed again on May 13, 2014 and indicated they will take action to comply with the recommendation.

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

KIDDER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: The relief association did not maintain a complete and accurate roster of relief association members. The most recent membership roster available was prepared in 2009.

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; and
- 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 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 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 original audit exit conference on July 22, 2013 and disclosed again on May 13, 2014 and indicated they will take action to comply with the recommendation.

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

KIDDER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – Noncompliance with Prior Audit Recommendation - Failure To Maintain
A Complete And Accurate Equipment Roster**

Condition: As cited in our prior audit report, 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 since it did not contain 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 it included all equipment purchased during the audit period. 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 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 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: Even though notified of this condition during our prior audit, relief association officials again, failed to establish adequate internal control procedures over equipment 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.

KIDDER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued):

Recommendation: We again recommend 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 original audit exit conference on July 22, 2013 and disclosed again on May 13, 2014 and indicated they will take action to comply with the recommendation.

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

KIDDER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2011 (ONLY)

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 FOR THE PERIOD 2009 THRU 2011:

Benefit Services:	
Insurance premiums	\$ 3,090
Fire Services:	
Equipment purchased	\$ 49,189
Equipment maintenance	1,908
Training expenses	1,139
Total Fire Services	\$ 52,236
Administrative Services:	
Other administrative expenses	\$ 900
Total Administrative Services	882
	\$ 1,782
Other Expenditures	
Undocumented expenditure	\$ 1,200

Note: As disclosed earlier in this report, the relief association's financial records were not available for inspection after December 31, 2011; therefore, expenditure amounts for 2012 and 2013 were omitted from the schedule shown above.

KIDDER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
CASH BALANCE RECONCILIATION
FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2013

Cash Reconciliation:

December 31, 2011, Cash Balance	\$	31,431
2012 State Aid Distributed by Municipality		11,508
2013 State Aid Distributed by Municipality	\$	<u>10,351</u>
 Total Cash Available	 \$	 <u>53,290</u>

Note: Since the financial records of the VFRA were not made available to us after December 31, 2011, we were unable to determine the status of any financial-related activity with regards to the relief association's available cash assets amounting to \$53,290 and the value of the December 31, 2011 investments totaling \$8,887 as of December 31, 2011.

KIDDER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Kidder Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Todd Wood	Former President
Ms. Jessica Rickert	Former Vice President
Mr. Sal Stalone	Former Secretary
Ms. Amanda Devine	Treasurer

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

Ms Suzanne Brooks Kidder Township	Secretary
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This report is a matter of public record and is available online at 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.