



**DAYTON DISTRICT VOLUNTEER FIRE DEPARTMENT
RELIEF ASSOCIATION**

ARMSTRONG COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010 TO DECEMBER 31, 2012

RELEASED APRIL 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Art Brocious, President
DAYTON DISTRICT VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Armstrong County

We have conducted a compliance audit of the Dayton District 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, 2010 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 Dayton District 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 Dayton District Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Dayton District 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, 2010 to December 31, 2012, found the Dayton District 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 Dayton District Volunteer Firefighters' Relief Association, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Dayton District Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$38,349 and an investment balance with a fair value of \$5,828.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Untimely Deposits of State Aid

Finding No. 2 – Failure to Adhere to Relief Association Bylaws

Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds

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

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

December 6, 2013

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

CONTENTS

Background.....	1
Status of Prior Finding.....	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Untimely Deposit of State Aid.....	4
Finding No. 2 – Failure to Adhere to Relief Association Bylaws	6
Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds.....	7
Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster.....	9
Accompanying Expenditure Information	11
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 Dayton District Volunteer Fire Department Relief Association, herein referred to as Dayton District 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 Dayton District Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Dayton Borough	Armstrong	\$2,617	\$ 3,993	\$2,268
Redbank Township	Armstrong	\$3,231	\$ 4,469	\$2,538
Wayne Township	Armstrong	\$6,467	\$10,449	\$5,997
Smicksburg Borough	Indiana	\$ 281	\$ 418	\$ 237
West Mahoning Township	Indiana	\$3,748	\$ 7,220	\$4,123
Porter Township	Jefferson	\$ 636	\$ 980	\$ 557
Timblin Borough	Jefferson	\$ 355	\$ 554	\$*

*In 2012, Timblin Borough did not allocate state aid to Dayton District Volunteer Firefighters' Relief Association.

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

Dayton District Volunteer Fire Department

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Dayton District Volunteer Firefighters' Relief Association has not complied with the following prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation – Untimely Deposits of State Aid

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

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Untimely Deposits of State Aid

Condition: As cited in our prior audit report, the volunteer firefighters' relief association did not deposit its 2008 and 2009 state aid in a timely manner. During the current audit period, a similar condition occurred. The volunteer firefighters' relief association did not deposit state aid allocations it received from two different municipalities, in the amounts of \$281 and \$7,220, until 20 days and 371 days, respectively, after the funds were distributed by the municipalities.

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2010	Smicksburg Borough	\$ 281	12/30/10	01/19/11
2011	West Mahoning Township	\$ 7,220	10/05/11	10/11/12

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that, upon receipt of its state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 1 – (Continued)

Cause: Even though notified of this condition during our prior audit, the 2011 foreign fire insurance tax allocation was distributed to the municipal treasurer on September 26, 2011, who forwarded this state aid to the volunteer firefighters' relief association on October 5, 2011, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). However, the relief association failed to establish internal control procedures to ensure that all income received was recorded and deposited in a timely manner. Conversely, the 2010 foreign fire insurance tax allocation was distributed by the municipal treasurer on September 20, 2010, but failed to forward this state aid to the volunteer relief association until December 30, 2010, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). However, relief association officials were unaware that the 2010 state aid allocation had not been allocated timely by the municipality and failed to ensure that the 2010 state aid was recorded and deposited timely upon receipt.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We again recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Failure to Adhere to Relief Association Bylaws

Condition: The relief association did not adhere to numerous provisions in the association's bylaws. Specifically, the relief association did not abide by the following bylaw stipulations:

- Hold quarterly meetings. The relief association did not provide minutes of meetings for the second quarter and third quarter of 2010, and the second quarter of 2011. However, expenditures were made throughout the entire audit period.

Criteria: The relief association's bylaws stipulate the following:

- Article VI, Section 1 – Regular meetings shall be held quarterly with the date being set by the President.

Furthermore, prudent business practice dictates that the relief association should adhere to all provisions stipulated in the relief association's bylaws to ensure that the relief association conducts its affairs with proper authorization.

Cause: Relief association officials were not familiar with the bylaw guidelines established by the relief association.

Effect: As a result of the relief association not following the mandatory provisions stipulated in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that relief association officials review the bylaws governing their organization and establish guidelines and procedures to meet the provisions contained in the bylaws in order to assure that the association conducts its affairs with proper authorization. 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.

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds

Condition: During the current audit engagement, we identified 48 checks out of 74 checks drawn on the relief association's checking account that only contained the signature of one officer, although two signatures are required, pursuant to Act 118 and the relief association bylaws. Issuing checks with the signature of only one officer negates the relief association's internal control over the disbursement process.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

In addition, Article VII, Sections I, III, and IV, respectively, of the relief association's bylaws states, in part:

The President shall preside at all meetings of the Association, sign all orders on the Treasurer after they have been signed by the Secretary,...

The Secretary shall sign all orders of the Treasurer, keep a true and correct record and account of all money coming into his hands, pay same promptly to the Treasurer...

The Treasurer shall keep a true and correct account of all monies of the Association, make disbursement of same and make a report of the condition of the Treasury to the Association quarterly. He shall not disburse any money except upon an order signed by the President and Secretary and ordered by the Association...

Furthermore, prudent business practice dictates that the relief associations have sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditures have been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contract, etc., prior to approving the checks.

Cause: Relief association officials neglected to establish adequate internal control procedures which require the signatures of at least two officers on all negotiable instruments.

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – (Continued)

Effect: As a result of the relief association officer issuing checks with only one signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk for errors occurring and going undetected, and reduces the risk of misappropriation.

Recommendation: We recommend the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118. 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.

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

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

Condition: The relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. Specifically, the relief association officials purchased \$41,669 of equipment during the current audit period, and there was no equipment roster created or maintained for these purchases. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all of 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 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 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.

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 4 – (Continued)

Recommendation: We 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 audit exit conference and indicated they will take action to comply with the recommendation.

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2010 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	\$ 10,148
Relief benefits	2,291
Total Benefit Services	\$ 12,439
Fire Services:	
Equipment purchased	\$ 41,669
Equipment maintenance	227
Training expenses	794
Total Fire Services	\$ 42,690
Administrative Services:	
Other administrative expenses	\$ 17

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Dayton District Volunteer Firefighters' Relief Association Governing Body:

Mr. Art Brocius	President
Mr. Dana Vranich	Vice President
Ms. Sara Reesman	Secretary
Mr. Barry M. Keener	Treasurer

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

Ms. Heidi L. Greenawalt, Secretary
Dayton Borough

Ms. Jody Stear, Secretary
Porter Township

Ms. Wendy D. Edmonds, Secretary
Redbank Township

Ms. Marilyn Barnette, Secretary
Smicksburg Borough

Ms. Margie Burkett, Secretary
Timblin Borough

Ms. Pamela J. Gearhart, Secretary
Wayne Township

Ms. Nancy Holmes, Secretary
West Mahoning Township

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