

COMPLIANCE AUDIT

Huntington Valley Volunteer Fireman's Relief Association

Luzerne County, Pennsylvania

For the Period

January 1, 2010 to December 31, 2013

August 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. William Miller, President
HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Luzerne County

We have conducted a compliance audit of the Huntington Valley 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, 2013.

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 findings 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 Huntington Valley 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 Huntington Valley Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Huntington Valley Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2013, 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, 2013, found the Huntington Valley Volunteer Firefighters' Relief Association took appropriate corrective action to address four of the seven findings contained in our prior audit report. However, the Huntington Valley Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the three remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Audit Findings section of this report. In addition, the results of our audit found, the Huntington Valley 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 later in this report. Therefore, the Huntington Valley Volunteer Firefighters' Relief Association will be subject to the potential 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- 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- Unauthorized Expenditures

Finding No.4 - Inadequate Minutes of Meetings

The results of our tests also indicated the Huntington Valley Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$19,208 and an investment balance with a fair value of \$12,989.

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



Eugene A. DePasquale
Auditor General

August 15, 2014

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation - Undocumented Expenditures	5
Finding No. 2 – Noncompliance With The Prior Audit Recommendation - Failure To Maintain A Complete And Accurate Equipment Roster	8
Finding No. 3 – Noncompliance With Prior Audit Recommendation - Unauthorized Expenditures	9
Finding No. 4 - Inadequate Minutes Of Meetings	11
Potential Withhold of State Aid	12
Accompanying Expenditure Information	13
Report Distribution List	14

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 Huntington Valley Volunteer Firemen's Relief Association, herein referred to as the Huntington Valley 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 Huntington Valley 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>	<u>2013</u>
Fishing Creek Township	Columbia	\$ 3,151	\$ 4,929	\$ 2,806	\$ 3,219
Huntington Township	Luzerne	\$13,106	\$21,593	\$12,187	\$14,126
New Columbus Borough	Luzerne	\$ 923	\$ 1,506	\$ 283	\$ 642
Union Township	Luzerne	\$ 3,235	\$ 5,068	\$ 2,858	\$ 3,306

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

Huntington Valley Volunteer Fire Company

HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Huntington Valley Volunteer Firefighters' Relief Association has complied with four of the seven prior audit findings and recommendations, as follows:

- Failure To Maintain A Complete And Accurate Membership Roster

By maintaining a comprehensive listing of the relief association's membership;

- Failure To Maintain Minutes Of Meetings

By maintaining minutes of all association meetings held during the period, however, there were some inadequacies noted in the minutes provided by the relief association as disclosed in Finding No. 4 contained in this report;

- Inappropriate Ownership of Vehicle

By receiving a promissory note in the amount of \$4,500 from the Huntington Valley Volunteer Fire Company for a vehicle purchased that was not properly titled in the relief association's name; and

- Failure To Maintain Officers Bond Coverage

By maintaining officers bond coverage in an amount greater than the balance of the relief association's cash assets.

HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Huntington Valley Volunteer Firefighters' Relief Association has not complied with three of the seven prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Undocumented Expenditures; and
- Unauthorized Expenditures

Although the relief association received a loan agreement for the repayment of the undocumented and unauthorized expenditures disclosed in the prior audit period and started receiving such payment during the current audit period, additional undocumented and unauthorized expenditures were identified in the current audit period as disclosed in Finding 1 and Finding No. 3, respectively, contained in this report.

- Failure to Maintain a Complete and Accurate Equipment Roster

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

HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: As disclosed in the Status of Prior Findings section of this report, although the relief association received a loan agreement for the repayment of the undocumented expenditures identified in the prior audit period and started receiving payment for such undocumented expenditures, a similar condition occurred during the current audit period. The relief association again, was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
1/18/10	1511	Cable company	\$ 61
1/18/10	1515	Individual	150
2/15/10	1516	Individual	5
2/15/10	1518	Phone company	249
2/16/10	EFT	Phone company	488
3/15/10	1517	Cable company	30
3/22/10	1523	Phone company	312
3/22/10	1524	Cable company	30
4/12/10	1521	Unknown payee	50
4/20/10	1527	Phone company	236
4/20/10	1528	Unknown payee	30
4/20/10	1526	Supplies vendor	3,596
5/11/10	1529	Advertising vendor	145
5/17/10	1532	Phone company	336
6/7/10	1533	Individual	96
7/19/10	1536	Medical firm	20
7/21/10	1537	Phone company	100
8/5/10	1535	Ambulance service provider	200
8/12/10	1539	Phone company	100
11/5/10	1543	Commonwealth of PA	23
8/10/12	1579	Equipment vendor	1,872
2/21/13	1603	Training vendor	350
3/23/13	1612	Food vendor	28
Total			<u>\$ 8,507</u>

HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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: Even though notified of this condition during our prior audit, relief association officials again, 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). Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We again 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 \$8,507 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

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

Auditor's Conclusion: 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

HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

audit report and through our next audit of the relief association.

HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With The 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, the roster was incomplete since it did not contain names of suppliers (vendors), dates of purchase, cost of equipment and serial numbers to accurately identify all of the equipment owned by the relief association. As such, we could not determine if all equipment purchased during the audit period in the amount of \$73,066 was properly recorded.

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.

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 prevents adequate accountability for, and safeguarding of, relief association equipment.

HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again recommend that 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: We are concerned by the relief association's failure to correct this previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report. Compliance will be subject to verification through our next audit.

Finding No. 3 – Noncompliance With Prior Audit Recommendation - Unauthorized Expenditures

Condition: As disclosed in the Status of Prior Findings section of this report, although the relief association received a loan agreement for the repayment of the unauthorized expenditures disclosed in the prior audit period and started receiving payment for such unauthorized expenditures, a similar condition occurred during the current audit period. The relief association again, expended 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>
01/18/10	1513	Fire company apparel	\$ 284
11/02/11	1564	Fire company telephone charges	94
07/10/13	1624	Fire company supplies	104
Total			<u>\$ 482</u>

HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(11) states:

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

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

Costs associated with the aforementioned fire company expenditures do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Even though notified of similar conditions during our prior audit, relief association officials again, neglected the fact that the 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.

Recommendation: We again recommend the relief association be reimbursed \$482 for the unauthorized expenditures and 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 with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report. Compliance will be subject to verification through our next audit.

HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Minutes Of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings as required by Act 118. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period.

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: Relief association officials were unaware that maintaining detailed minutes of meetings was required by Act 118.

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

Recommendation: We recommend the relief association maintain detailed minutes of meetings, evidencing the discussion and approval 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.

HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this audit 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 Municipal Pension & VFRA Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2010 to DECEMBER 31, 2013

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	\$ 9,814
Tokens of sympathy and goodwill	324
Total Benefit Services	\$ 10,138
Fire Services:	
Equipment purchased	\$ 73,066
Equipment maintenance	5,726
Training expenses	4,459
Fire prevention materials	1,514
Total Fire Services	\$ 84,765
Administrative Services:	
Other administrative expenses	1,055
Total Investments Purchased	\$ 4,000
Other Expenditures:	
Principal payments on loan	\$ 1,000
Fire company reimbursement	450
Undocumented expenditures	8,507
Total Other Expenditures	\$ 9,957

HUNTINGTON VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Huntington Valley Volunteer Firefighters' Relief Association Governing Body:

Mr. William Miller	President
Mr. Harold Morris	Vice President
Ms. Andrea Gunther	Secretary
Ms. Shannon Thomas	Treasurer

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

Ms. Coralee Kindt Fishing Township	Secretary
Ms. Karen Hilley Huntington Township	Secretary
Ms. Debbie Fink New Columbus Borough	Secretary
Ms. Lori Ragazzo Union Township	Secretary

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.