

# COMPLIANCE AUDIT

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## New Franklin Firemen's Relief Association of the State of Pennsylvania Franklin County For the Period January 1, 2016 to December 31, 2018

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August 2019



Commonwealth of Pennsylvania  
Department of the Auditor General  
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Ronald Stambaugh, President  
New Franklin Firemen's Relief Association  
of the State of Pennsylvania  
Franklin County

We have conducted a compliance audit of the New Franklin Firemen's Relief Association of the State of Pennsylvania (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, 2016 to December 31, 2018.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding contained in our prior audit report.
2. To determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds.

Our audit was limited to the areas related to the objectives identified above and was not required to be and was not conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, including the safeguarding of assets. Relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, for the period January 1, 2016 to December 31, 2018:

- The 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.
- The relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure  
To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Unauthorized Expenditures

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with the management of the relief association and, where appropriate, their responses have been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

August 6, 2019



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 relief association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of relief associations to choose investments in a proper and prudent manner.

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

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

**BACKGROUND – (Continued)**

The relief association was allocated state aid from the following municipalities:

| <u>Municipality</u> | <u>County</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|---------------------|---------------|-------------|-------------|-------------|
| Guilford Township   | Franklin      | \$23,268    | \$20,630    | \$18,925    |
| Quincy Township     | Franklin      | \$ 1,579    | \$ 1,461    | \$ 1,304    |

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The relief association is affiliated with the following fire service organization:

New Franklin Fire Department

NEW FRANKLIN FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA  
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The 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:

- Failure To Maintain A Complete And Accurate Equipment Roster

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

NEW FRANKLIN FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain  
A Complete And Accurate Equipment Roster**

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Specifically, the relief association purchased \$90,487 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 to account for the equipment owned by the relief association.

A similar condition was noted in our prior audit report.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The continued failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.



NEW FRANKLIN FIREMEN’S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We again recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

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

Auditor’s Conclusion: 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.

**Finding No. 2 – Unauthorized Expenditures**

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

| <u>Date</u> | <u>Check No.</u> | <u>Description</u>                        | <u>Amount</u>   |
|-------------|------------------|---|-----------------|
| 01/25/17    | 1778             | Death benefit payment for social member * | \$ 500          |
| 01/25/17    | 1779             | Death benefit payment for social member * | 250             |
| 01/25/17    | 1780             | Death benefit payment for social member * | 250             |
| 05/01/18    | 1859             | Death benefit payment for social member * | 500             |
| Total       |                  |   | <u>\$ 1,500</u> |

\* A social member does not participate in the fire service.

NEW FRANKLIN FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Criteria: Fire service participation is defined by Section 7412 of Act 118:

**“Fire service.”** The service of organized groups of individuals, not only in training for and in active duty in the protection of the public against fire, but also in the training for and the performance of such other activities as are commonly undertaken by fire companies and their affiliated organizations, including, but not limited to, fire prevention, first aid, rescue and salvage, ambulance service, fire police work, radio communications, assistance at accidents, control of crowds both on the fire grounds and at occasions of public or general assembly, animal rescue, abatement of conditions due to storm, flood or general peril, abatement or removal of hazards to safety and participation in public celebrations, parades, demonstrations and fundraising campaigns.

In addition, Section 7416(f) of Act 118 states:

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

- (3) To maintain a beneficiary or death benefit fund and to pay a sum certain from that fund to the beneficiary of a participant in that fund upon death. If a beneficiary is not designated or a designated one has predeceased the participant, the sum certain shall be paid to the estate of the participant.

Costs associated with the payment of death benefits for individuals who did not participate in fire service do not qualify as authorized volunteer firefighters' relief association expenditures since to qualify for membership in a relief association an individual must be currently active in the fire service or have actively participated in the fire service for a specified minimum period; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware 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.

Recommendation: We recommend that the relief association be reimbursed \$1,500 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of Act 118 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.

NEW FRANKLIN FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Continued**

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.

NEW FRANKLIN FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2018

|                            |                   |
|----------------------------|-------------------|
| Cash                       | \$ 168,162        |
| Fair Value of Investments  | <u>25,000</u>     |
| Total Cash and Investments | <u>\$ 193,162</u> |

NEW FRANKLIN FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA  
SUPPLEMENTARY FINANCIAL INFORMATION  
SUMMARY OF EXPENDITURES  
FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2018

Expenditures:

|                                 |                          |
|---------------------------------|--------------------------|
| Benefit Services:               |                          |
| Insurance premiums              | \$ 18,385                |
| Tokens of sympathy and goodwill | 203                      |
| Total Benefit Services          | <u>\$ 18,588</u>         |
|                                 |                          |
| Fire Services:                  |                          |
| Equipment purchased             | \$ 90,487                |
| Equipment maintenance           | 25,066                   |
| Training expenses               | 3,691                    |
| Fire prevention materials       | 8,602                    |
| Total Fire Services             | <u>\$ 127,846</u>        |
|                                 |                          |
| Administrative Services:        |                          |
| Bond premiums                   | \$ 947                   |
| Other administrative expenses * | 85,836                   |
| Total Administrative Services   | <u>\$ 86,783</u>         |
|                                 |                          |
| Other Expenditures:             |                          |
| Unauthorized expenditures       | <u>\$ 1,500</u>          |
| Total Expenditures              | <u><u>\$ 234,717</u></u> |

\* A majority of the Other administrative expenses noted above consists of small games of chance and bingo related expenditures totaling \$76,019.

NEW FRANKLIN FIREMEN’S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

New Franklin Firemen’s Relief Association of the State of Pennsylvania Governing Body:

**Mr. Ronald Stambaugh**  
President

**Ms. Lori Helman**  
Secretary

**Mr. Darryll Wagaman**  
Treasurer

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

**Ms. Shannon Malott**  
Secretary  
Guilford Township

**Ms. Vicki Nunemaker**  
Secretary  
Quincy Township

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).