

COMPLIANCE AUDIT

Dayton District Volunteer Fire Department Relief Association Armstrong County, Pennsylvania For the Period January 1, 2013 to December 31, 2014

December 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Art Brocius, 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, 2013 to December 31, 2014.

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.
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. Volunteer firefighters' 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 concluded that, for the period January 1, 2013 to December 31, 2014:

- The Dayton District Volunteer Firefighters' Relief Association took appropriate corrective action to address three of the four findings contained in our prior audit report. However, the Dayton District Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- 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 later in this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Inadequate Relief Association Bylaws (Discretionary Benefits)

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 Dayton District Volunteer Firefighters' Relief Association; and, where appropriate, their response has 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.

November 6, 2015



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 Dayton District Volunteer Fire Department Relief Association, herein referred to as the 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>2013</u>	<u>2014</u>
Dayton Borough	Armstrong	\$2,546	\$2,417
Redbank Township	Armstrong	\$2,964	\$2,817
Wayne Township	Armstrong	\$6,808	\$6,521
Smicksburg Borough	Indiana	\$ 275	\$ 263
West Mahoning Township	Indiana	\$4,518	\$4,291
Porter Township	Jefferson	\$ 629	\$ 597

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 FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Dayton District Volunteer Firefighters' Relief Association has complied with the prior audit findings and recommendations, as follows:

- Untimely Deposit of State Aid

By depositing state aid in a timely manner.

- Failure To Adhere To Relief Association Bylaws

By establishing guidelines and procedures to meet the provisions contained in the relief association bylaws.

- Inadequate Signatory Authority For The Disbursement Of Funds

By requiring more than one signature on all negotiable instruments.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Dayton District Volunteer Firefighters' Relief Association has not complied with one of the four prior audit findings. The 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 recommendations and corrective actions noted in this audit report.

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – 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 again 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, this listing was incomplete and did not accurately identify all of the equipment owned by the relief association. The relief association purchased \$22,965 of equipment during the current audit period, but the equipment for \$8,503 of those purchases was not properly accounted for on the relief association's equipment roster. Additionally, the relief association purchased \$41,669 of equipment during the prior audit period, but the equipment for \$15,217 of those purchases was not properly accounted for on the relief association's equipment roster. 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.

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.

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
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 recommendations noted in this audit report.

Finding No. 2 – Inadequate Relief Association Bylaws (Discretionary Benefits)

Condition: The existing bylaws of the Dayton District Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not address the following:

- \$1,000 disbursed to membership (individual/group) upon authorization of an eligible hardship.

In addition, the relief association did not formally define discretionary benefits that were being offered to its members. During the current audit period, the relief association paid relief benefits to two members of the relief association. Although these expenditures were authorized by Act 118, the types, amounts, and criteria to be met before receiving the benefits were not described in a formal policy approved by the association membership.

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(6,10) states, the relief association's bylaws should include the following provisions:

(6) Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.

(10) Contain such other provisions as may, to the membership, seem appropriate or necessary to the orderly conduct of affairs of the association.

Furthermore, prudent business practice dictates that when a relief association offers death benefits, or any other type of discretionary benefit provided by Act 118, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well.

Cause: Relief association officials indicated that they were unaware of the specific bylaw stipulations established by Act 118 and did not perceive the formal approval to be an essential internal control in safeguarding relief association assets. As a result, relief association officials failed to establish procedures to formally define the benefits and related criteria for the benefits offered to members.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization. In addition, the relief association's failure to formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the association.

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of 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.

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2014

Cash Balance:	\$	28,873
Fair Value of Investment Balance:	\$	5,856
Expenditures:		
Benefit Services:		
Insurance premiums	\$	6,564
Death benefits		200
Relief benefits		2,350
Total Benefit Services	\$	<u>9,114</u>
Fire Services:		
Equipment purchased	\$	22,965
Equipment maintenance		10,805
Training expenses		1,039
Fire prevention materials		71
Total Fire Services	\$	<u>34,880</u>
Administrative Services:		
Other administrative expenses	\$	18
Bond Premiums		364
Total Administrative Services	\$	<u>382</u>

DAYTON DISTRICT VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Dayton District Volunteer Firefighters' Relief Association Governing Body:

Mr. Art Brocius	President
Mr. Evan Keener	Vice President
Ms. Sara Reesman	Secretary
Mr. Barry M. Kenner	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 Dayton Borough	Secretary
Ms. Wendy D. Edmonds Redbank Township	Secretary
Ms. Pamela J. Gearhart Wayne Township	Secretary
Ms. Marilyn Barnette Smicksburg Borough	Secretary
Ms. Nancy Holmes West Mahoning Township	Secretary
Ms. Jody Stear Porter Township	Secretary

This report is a matter of public record and is available online at 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.