

COMPLIANCE AUDIT

Mountville Fire Company No. 1 Firemen's Relief Association Lancaster County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

February 2019



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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Paul M. Rossi, President
Mountville Fire Company No. 1
Firemen's Relief Association
Lancaster County

We have conducted a compliance audit of the Mountville Fire Company No. 1 Firemen's Relief Association (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, 2017.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the findings 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.

We were not able to obtain an independent confirmation of the cash balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2017, the relief association had a cash balance of \$31,240, we were not able to verify this cash balance.

We were also not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

Based on our audit procedures, we conclude that, for the period January 1, 2016 to December 31, 2017:

- Except for the effects, if any, of the matters described in the preceding paragraphs, the relief association took appropriate corrective action to address one of the three findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- Because of the significance of the matters described in the findings below and discussed later in this report, the relief association did not, in all significant respects, comply 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, collectively as a whole. Therefore, the relief association may 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 – Unsecured Loan

Finding No. 4 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Finding No. 5 – Duplicate Payment

The five findings contained in this report cite conditions that existed in the operation of the relief association during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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.

February 12, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

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>
Mountville Borough	Lancaster	\$16,722	\$15,105
West Hempfield Township	Lancaster	\$13,385	\$12,036

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:

Mountville Volunteer Fire Company No. 1

MOUNTVILLE FIRE COMPANY NO. 1 FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with one of the three prior audit findings and recommendations, as follows:

- Inadequate Minutes Of Meetings

By maintaining detailed minutes of all relief association meetings held during the period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with two of the three prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Undocumented Expenditures

Although the relief association received reimbursement of \$1,581 from the affiliated fire company for the undocumented expenditures that were made in the prior audit period, the relief association again failed to provide adequate documentation to support all expenditures in the current audit period as further disclosed in Finding No. 1 of this report.

- Failure To Maintain A Complete And Accurate Equipment Roster

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

MOUNTVILLE FIRE COMPANY NO. 1 FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: Although the relief association received reimbursement from the affiliated fire company for the undocumented expenditures that were made in the prior audit period, the relief association 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>
01/04/2016	1243	Training vendor	\$ 150
03/23/2016	1251	Affiliated fire company	100
05/18/2016	1256	Affiliated fire company	350
06/13/2016	1258	Affiliated fire company	515
Total			\$ 1,115

A similar condition was noted in our prior audit report.

Criteria: Section 7418(a) of Act 118 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), 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 invoices and/or itemized receipts, 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.

MOUNTVILLE FIRE COMPANY NO. 1 FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of Act 118. 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 again recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$1,115 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, as a result of our audit, the relief association provided this department with adequate supporting documentation to ensure the propriety of two expenditures totaling \$450 on February 19, 2019 leaving a \$665 balance of undocumented expenditures.

Auditor's Conclusion: We are concerned by the relief association's failure to fully correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 2 – 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 \$48,873 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.

MOUNTVILLE FIRE COMPANY NO. 1 FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

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.

MOUNTVILLE FIRE COMPANY NO. 1 FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Unsecured Loan

Condition: On April 1, 2016, the relief association made an unsecured loan to the Mountville Fire Company No. 1 in the amount of \$46,800.

Criteria: Section 7416(c)(3) of Act 118 requires that loans be:

... (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

Cause: Relief association officials indicated that they were unaware that the loan to the fire company must be secured to ensure compliance with Act 118 provisions.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials and the fire company amend the written loan agreement to provide adequate security for the relief association's investment as required by Section 7416(c)(3) of Act 118. If such action is not taken, we recommend that the loan be immediately liquidated. 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 audit report and through our next audit of the relief association.

Finding No. 4 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Condition: On May 8, 2017, the relief association expended \$10,883 for the purpose of jointly purchasing a 2017 Chevy Tahoe with the affiliated fire company. However, the relief association did not adequately secure its ownership interest in this jointly purchased vehicle as the vehicle was titled solely in the name of Mountville Fire Company No. 1.

MOUNTVILLE FIRE COMPANY NO. 1 FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Criteria: Section 7418(a) of Act 118 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), 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.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold.

Cause: Relief association officials failed to adequately secure its proportional ownership interest in the jointly purchased vehicle.

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicle places the relief association's ownership interest at greater risk. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$10,883. 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, as a result of our audit, the relief association and the fire company executed a formal written agreement that specified the relief association's proportional ownership interest in the jointly purchased vehicle, on February 19, 2019; however, only 3 individual signatures were present.

MOUNTVILLE FIRE COMPANY NO. 1 FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Auditor's Conclusion: We reviewed the agreement verifying the relief association's proportional ownership interest in the jointly purchased vehicle; however, 4 separate individual signatures (2 from the relief association and 2 from the fire company) are required. 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 audit report and through our next audit of the relief association.

Finding No. 5 – Duplicate Payment

Condition: On April 11, 2017, the relief association expended \$493 for an air cylinder. On the same date, the relief association erroneously made a duplicate payment for the same air cylinder. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment. The relief association failed to obtain reimbursement for the duplicate payment during the current audit period.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent the duplicate payment of invoices and to ensure duplicate payments are recouped.

Cause: The relief association failed to establish adequate internal control procedures that require all invoices or other billing documents to be canceled or otherwise effectively marked to prevent duplicate payments.

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

Recommendation: We recommend that the relief association be reimbursed \$493 for the erroneous duplicate payment. The relief association officials should consider contacting the vendor to recover the duplicate payment. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief 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 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.

MOUNTVILLE FIRE COMPANY NO. 1 FIREMEN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 3 and 4 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action may 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 relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

MOUNTVILLE FIRE COMPANY NO. 1 FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 31,240
Book Value of Other Investments	<u>31,934</u>
Total Cash and Investments	<u>\$ 63,174</u>

MOUNTVILLE FIRE COMPANY NO. 1 FIREMEN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 12,405
Relief benefits	209
Total Benefit Services	\$ 12,614
Fire Services:	
Equipment purchased	\$ 48,380
Equipment maintenance	7,000
Training expenses	1,724
Total Fire Services	\$ 57,104
Administrative Services:	
Other administrative expenses	\$ 1,145
Bond premiums	100
Total Administrative Services	\$ 1,245
Total Investments Purchased	\$ 46,800
Other Expenditures:	
Undocumented expenditures	\$ 1,115
Unauthorized/Duplicate expenditure	493
Total Other Expenditures	\$ 1,608
Total Expenditures	\$ 119,371

MOUNTVILLE FIRE COMPANY NO. 1 FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mountville Fire Company No. 1 Firemen's Relief Association Governing Body:

Mr. Paul M. Rossi
President

Ms. Amanda Dicely
Vice President

Mr. Michael P. Rossi
Secretary

Mr. Joseph S. Iacono
Treasurer

Mr. Dean R. Gantz, Jr.
Trustee

Mr. Andrew M. Kalbach
Trustee

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

Ms. Pamela Mitchell
Secretary
Mountville Borough

Mr. Andrew Stern
Secretary
West Hempfield Township

MOUNTVILLE FIRE COMPANY NO. 1 FIREMEN'S RELIEF ASSOCIATION
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