

COMPLIANCE AUDIT

Lehman Township Volunteer Firemen's Relief Association

Luzerne County, Pennsylvania

For the Period

January 1, 2013 to August 7, 2018

September 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. David Hopfer, President
Lehman Township Volunteer Firemen's
Relief Association
Luzerne County

We have conducted a compliance audit of the former Lehman Township Volunteer 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, 2013 to August 7, 2018.

The objectives of the audit were:

1. To determine if the former relief association took appropriate corrective action to address the findings contained in our prior audit report.
2. To determine if the former 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, 2013 to August 7, 2018:

- The former relief association took appropriate corrective action to address the findings contained in our prior audit report.
- The former 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 – Untimely Deposit Of State Aid

Finding No. 2 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 3 – Failure To Maintain Minutes Of Meetings

Finding No. 4 – Failure To Maintain Surety (Fidelity) Bond Coverage

Finding No. 5 – Improper Closeout


The five findings contained in this report cite conditions that existed in the operation of the former 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.

In addition, as of August 7, 2018, the former relief association completed the process of dissolution and transferred its remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association.

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 former relief association and, where appropriate, their responses have been included in the report.

September 5, 2018


EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Untimely Deposit Of State Aid.....	4
Finding No. 2 – Failure To Maintain A Complete And Accurate Equipment Roster.....	5
Finding No. 3 – Failure To Maintain Minutes Of Meetings	6
Finding No. 4 – Failure To Maintain Surety (Fidelity) Bond Coverage.....	7
Finding No. 5 – Improper Closeout	8
Supplementary Financial Information	10
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 former relief association was 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 former relief association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Lake Township	Luzerne	\$2,665	\$2,516	\$2,468*
Lehman Township	Luzerne	\$8,489	\$7,995	\$7,731*

* The 2015 state aid allocations received from Lake Township and Lehman Township were not deposited by the former relief association until March, 8, 2016 and June 20, 2016, respectively, as disclosed in Finding No. 1 in this report.

As of August 7, 2018, the former relief association dissolved its organization. Prior to that date, however, the former relief association did not receive any further state aid allocations from these two municipalities after 2015. (See Supplementary Financial Information)

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

Lehman Township Volunteer Fire Company

LEHMAN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Undocumented Expenditure

By receiving reimbursement of \$400 from the affiliated fire company for the undocumented expenditure that was cited in the prior audit report.

- Inappropriate Presigning Of Blank Checks

By prohibiting the pre-signing of blank checks.

LEHMAN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Deposit Of State Aid

Condition: The former relief association did not deposit the 2015 state aid allocations it received from Lake Township and Lehman Township, in the amounts of \$2,468, and \$7,731, until March 8, 2016 and June 20, 2016, respectively. The foreign fire insurance tax allocations were distributed to the municipal treasurers on September 23, 2015. Lake Township forwarded the state aid to the former relief association on October 15, 2015 while Lehman Township forwarded the state aid to the former relief association on November 16, 2015. Both municipalities forwarded the state aid amounts 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, upon receipt of the state aid allocations, the former relief association did not ensure the funds were deposited timely into a former relief association account.

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 former relief association should have established adequate internal control procedures to ensure the funds were deposited in a timely manner.

Cause: Former relief association officials failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner.

Effect: As a result of the untimely deposits, 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: Due to the dissolution of the former relief association and consequently transferring its remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association, we are providing officials of the Dr. Henry M. Laing Fire and Ambulance Relief Association copies of this report so that they are aware of the conditions that were detected during the course of our audit of the former relief association. We recommend that the Dr. Henry M. Laing Fire and Ambulance Relief Association's officials maintain internal control procedures to ensure the timely deposit of all future income received. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

LEHMAN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: The former relief association did not respond to the exit conference memo that was sent to them requesting their response to the audit report findings.

Auditor's Conclusion: Since the former relief association dissolved its organization and consequently transferred its remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association, the management of the Dr. Henry M. Laing Fire and Ambulance Relief Association should strive to implement the recommendation noted in this audit report.

Finding No. 2 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The former relief association failed to maintain a complete and accurate roster of equipment owned by the former relief association. Specifically, the former relief association purchased \$22,939 of equipment during the current audit period and there was no equipment roster created or maintained for these purchases. The former relief association ceased recording equipment purchases after 2011. 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 former relief association.

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

LEHMAN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

Recommendation: Due to the dissolution of the former relief association and consequently transferring its remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association, we are providing officials of the Dr. Henry M. Laing Fire and Ambulance Relief Association copies of this report so that they are aware of the conditions that were detected during the course of our audit of the former relief association. We recommend that the Dr. Henry M. Laing Fire and Ambulance 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: The former relief association did not respond to the exit conference memo that was sent to them requesting their response to the audit report findings.

Auditor's Conclusion: Since the former relief association dissolved its organization and consequently transferred its remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association, the management of the Dr. Henry M. Laing Fire and Ambulance Relief Association should strive to implement the recommendation noted in this audit report.

Finding No. 3 – Failure To Maintain Minutes Of Meetings

Condition: The former relief association did not maintain minutes of meetings as required by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the former 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: Former relief association officials indicated that they were unaware that the former relief association was required by Act 118 to maintain its own minutes of meetings.

LEHMAN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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

Recommendation: Due to the dissolution of the former relief association and consequently transferring its remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association, we are providing officials of the Dr. Henry M. Laing Fire and Ambulance Relief Association copies of this report so that they are aware of the conditions that were detected during the course of our audit of the former relief association. We recommend the Dr. Henry M. Laing Fire and Ambulance Relief Association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record 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: The former relief association did not respond to the exit conference memo that was sent to them requesting their response to the audit report findings.

Auditor's Conclusion: Since the former relief association dissolved its organization and consequently transferred its remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association, the management of the Dr. Henry M. Laing Fire and Ambulance Relief Association should strive to implement the recommendation noted in this audit report.

Finding No. 4 – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. The relief association's Surety (Fidelity) bond coverage expired on February 20, 2018.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

LEHMAN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Cause: Former relief association officials indicated that they were unaware of the Act 118 provision requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer.

Effect: As a result of the authorized disbursing officer of the relief association not being bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: Due to the dissolution of the former relief association and consequently transferring its remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association, we are providing officials of the Dr. Henry M. Laing Fire and Ambulance Relief Association copies of this report so that they are aware of the conditions that were detected during the course of our audit of the former relief association. We recommend the Dr. Henry M. Laing Fire and Ambulance Relief Association officials maintain Surety (Fidelity) bond coverage on its authorized disbursing officer. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: The former relief association did not respond to the exit conference memo that was sent to them requesting their response to the audit report findings.

Auditor's Conclusion: Since the former relief association dissolved its organization and consequently transferred its remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association, the management of the Dr. Henry M. Laing Fire and Ambulance Relief Association should strive to implement the recommendation noted in this audit report.

Finding No. 5 – Improper Closeout

Condition: The former relief association did not properly document the dissolution of the organization and subsequent transfer of remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association. Specifically, the former relief association did not provide meeting minutes evidencing membership approval of the dissolution or evidence of the transfer of equipment owned by the former relief association.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the former 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.

LEHMAN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Furthermore, prudent business practice dictates that the former relief association should have properly documented the membership's approval of the dissolution in the minutes of meetings held by the former relief association regarding the merger. In addition, the equipment transferred from the former relief association should have been documented to evidence the propriety of the former relief association's equipment actually being transferred to the Dr. Henry M. Laing Fire and Ambulance Relief Association, along with a signed receipt of the recipient.

Cause: Former relief association officials were unaware of the importance of the administrative provisions identified above and the significance associated with documenting the decision to dissolve and transfer equipment into the existing relief association.

Effect: Without detailed documentation, evidence that the former relief association's dissolution was presented before the membership for approval does not exist. In addition, without evidence of the equipment transferred to the existing relief association, the former relief association is unable to certify that all of the equipment previously purchased with former relief association funds was properly transferred to the existing relief association.

Recommendation: Due to the dissolution of the former relief association and consequently transferring its remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association, we are providing officials of the Dr. Henry M. Laing Fire and Ambulance Relief Association copies of this report so that they are aware of the conditions that were detected during the course of our audit of the former relief association. We recommend that the Dr. Henry M. Laing Fire and Ambulance Relief Association officials maintain detailed minutes of future 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: The former relief association did not respond to the exit conference memo that was sent to them requesting their response to the audit report findings.

Auditor's Conclusion: Since the former relief association dissolved its organization and consequently transferred its remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association, the management of the Dr. Henry M. Laing Fire and Ambulance Relief Association should strive to implement the recommendation noted in this audit report. In addition, we were informed by management of the Dr. Henry M. Laing Fire and Ambulance Relief Association that it performed a physical inventory of all transferred equipment prior to the transfer of the equipment assets. Compliance will be subject to verification through our next audit of the Dr. Henry M. Laing Fire and Ambulance Relief Association.

LEHMAN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCE
AS OF AUGUST 7, 2018

Cash and Investments	<u>\$ -</u>
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LEHMAN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2013 TO AUGUST 7, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 4,072
Relief benefits	250
Total Benefit Services	\$ 4,322
Fire Services:	
Equipment purchased	\$ 22,939
Equipment maintenance	1,376
Total Fire Services	\$ 24,315
Administrative Services:	
Other administrative expenses	\$ 25
Bond premiums	250
Total Administrative Services	\$ 275
Other Expenditure:	
Transfer of monetary assets *	\$ 33,189
Total Expenditures	\$ 62,101

* Transfer of Monetary Assets/Dissolution of Relief Association

As of August 7, 2018, the former relief association completed the process of dissolution and transferred its remaining assets to the Dr. Henry M. Laing Fire and Ambulance Relief Association. Due to the dissolution of the former relief association, we are providing officials of the Dr. Henry M. Laing Fire and Ambulance Relief Association copies of this report.

LEHMAN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Lehman Township Volunteer Firemen's Relief Association Governing Body:

Mr. David Hopfer
President

Ms. Helen Frederick
Treasurer

Dr. Henry M. Laing Fire and Ambulance Relief Association Governing Body:

Mr. Mark Van Etten
President

Mr. Timothy Carroll, Sr.
Vice President

Mr. Leonard Roginski
Secretary

Mr. Timothy Carroll, II
Treasurer

LEHMAN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Ms. Carlene Price
Secretary
Lake Township

Mr. Alvin L. Cragle
Secretary
Lehman Township

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.