

COMPLIANCE AUDIT

Morris Township Fire Co.
Incorporated/Morris Firemens
Ambulance Association Incorporated
Relief Association
Tioga County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2017

January 2019



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
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. James Kreger, President
Morris Township Fire Co. Incorporated/Morris
Firemens Ambulance Association
Incorporated Relief Association
Tioga County

We have conducted a compliance audit of the Morris Township Fire Co. Incorporated/Morris Firemens Ambulance Association Incorporated 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, 2015 to December 31, 2017.

The objective of the audit was 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 objective 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 objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, because of the significance of a matter described in one of 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, for the period January 1, 2015 to December 31, 2017. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Untimely Receipt And Deposit Of State Aid

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

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.

January 17, 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>2015</u>	<u>2016</u>	<u>2017</u>
Cogan House Township	Lycoming	\$3,452	\$3,430	\$3,563
Pine Township	Lycoming	\$2,838	\$2,826	\$3,050
Delmar Township	Tioga	\$2,500	\$2,500	\$2,500
Duncan Township	Tioga	\$1,447*	\$1,439**	***
Morris Township	Tioga	\$4,763	\$4,745	\$4,529

*The 2015 state aid allocation received from Duncan Township was not deposited by the relief association until March 30, 2016 as disclosed in Finding No. 1 in this report.

**The 2016 state aid allocation received from Duncan Township was not deposited by the relief association until October 24, 2018 as disclosed in Finding No. 1 in this report.

***Although Duncan Township prepared and returned a Certification Form AG 385 for 2017, the date the township distributed the 2017 state aid to the relief association could not be determined because the township failed to submit a Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this department as required by the instructions accompanying Form 706-B and the 2017 state aid allocation received by the township disclosing this information as disclosed in Finding No. 1 in this report.

Duncan Township is still required to submit a Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this Department as soon as possible.

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:

Morris Township Fire Department

MORRIS TOWNSHIP FIRE CO. INCORPORATED/MORRIS FIREMENS AMBULANCE
ASSOCIATION INCORPORATED RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Receipt And Deposit Of State Aid

Condition: The relief association did not deposit the 2015 state aid allocation it received from Duncan Township, in the amount of \$1,447, until March 30, 2016. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 23, 2015; however, municipal officials failed to forward the state aid allocation to the relief association until December 28, 2015, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Since there was no documentation indicating that the relief association attempted to retrieve the funds, the relief association did not ensure the funds were received and deposited timely.

In addition, the relief association did not deposit the 2016 state aid allocation it received from Duncan Township, in the amount of \$1,439, until October 24, 2018. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 20, 2016; however, municipal officials failed to forward the state aid allocation to the relief association until February 8, 2017, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Additionally, the state aid allocation was erroneously deposited into the affiliated fire company's account. Therefore, the relief association did not ensure the funds were received and deposited timely into a relief association account. As a result of our audit, on October 24, 2018, the relief association deposited \$1,439 into a relief association account.

Although Duncan Township prepared and returned a Certification Form AG 385 for 2017 by the March 31 annual filing date in accordance with Act 205, documentation was not provided to support the township's distribution of the 2017 state aid in the amount of \$1,431 to the relief association in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 25, 2017; however, the township did not provide documentation to validate if the funds were forwarded within 60 days of receipts, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Duncan Township failed to submit a Receipt and Distribution of Foreign Fire Insurance Premium Tax Form 706-B to this department as required by the instructions accompanying Form 706-B and the 2017 state aid allocation received by the township. The relief association had not received, and as such, did not deposit the 2017 state aid allocation from Duncan Township. Since there was no documentation indicating that the relief association attempted to retrieve the funds, the relief association did not ensure the funds were received and deposited timely.

MORRIS TOWNSHIP FIRE CO. INCORPORATED/MORRIS FIREMENS AMBULANCE
ASSOCIATION INCORPORATED RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: Relief association officials failed to establish internal control procedures to ensure that all income due the relief association was received, recorded and deposited into a relief association account in a timely manner.

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds increases the risk that funds could be lost or misappropriated. 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 immediately locate and deposit the 2017 Duncan Township state aid allocation amounting to \$1,431. In addition, relief association officials should adopt internal control procedures to ensure the timely receipt and deposit of all future income received. 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.

MORRIS TOWNSHIP FIRE CO. INCORPORATED/MORRIS FIREMENS AMBULANCE
ASSOCIATION INCORPORATED RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – 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. Although a listing of relief association owned equipment was provided during the current audit period, it was incomplete because it did not contain the names of suppliers (vendors), cost of equipment and serial numbers to accurately identify equipment owned by the relief association. As such, it was impossible to determine if all equipment purchased during the audit period in the amount of \$16,675 was recorded. 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: 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.

Effect: The 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.

MORRIS TOWNSHIP FIRE CO. INCORPORATED/MORRIS FIREMENS AMBULANCE
ASSOCIATION INCORPORATED RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We 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: Compliance will be subject to verification through our next audit.

MORRIS TOWNSHIP FIRE CO. INCORPORATED/MORRIS FIREMENS AMBULANCE
ASSOCIATION INCORPORATED 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 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.

MORRIS TOWNSHIP FIRE CO. INCORPORATED/MORRIS FIREMENS AMBULANCE
ASSOCIATION INCORPORATED RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2017

Cash	\$ <u>17,165</u>
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MORRIS TOWNSHIP FIRE CO. INCORPORATED/MORRIS FIREMENS AMBULANCE
ASSOCIATION INCORPORATED RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 9,262
Tokens of sympathy and goodwill	184
Total Benefit Services	\$ 9,446
Fire Services:	
Equipment purchased	\$ 16,674
Equipment maintenance	13,606
Training expenses	275
Total Fire Services	\$ 30,555
Administrative Services:	
Bond premiums	\$ 300
Other Expenditures:	
Miscellaneous*	\$ 1,500
Total Expenditures	\$ 41,801

*The relief association made an erroneous withdrawal on November 9, 2017; however, on January 8, 2018, the relief association deposited \$1,500 back into the relief association account. We disclosed this issue to relief association officials as a verbal observation during the conduct of our audit.

MORRIS TOWNSHIP FIRE CO. INCORPORATED/MORRIS FIREMENS AMBULANCE
ASSOCIATION INCORPORATED RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Morris Township Fire Co. Incorporated/Morris Firemens Ambulance Association Incorporated
Relief Association Governing Body:

Mr. James Kreger
President

Ms. Sandra Guild
Treasurer

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

Ms. Theresa Roupp
Secretary
Cogan House Township

Ms. Debra Pier
Secretary
Pine Township

Ms. Pamela Musser
Secretary
Delmar Township

Ms. Carol Barrett
Secretary
Duncan Township

Ms. Irene Heatley
Secretary
Morris Township

MORRIS TOWNSHIP FIRE CO. INCORPORATED/MORRIS FIREMENS AMBULANCE
ASSOCIATION INCORPORATED RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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.