

COMPLIANCE AUDIT

East Pittsburgh Volunteer Firemen's Relief Association Allegheny County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

January 2016



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
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Pat Gordon, President
EAST PITTSBURGH VOLUNTEER FIREMEN'S
RELIEF ASSOCIATION
Allegheny County

We have conducted a compliance audit of the East Pittsburgh Volunteer Firemen's 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, 2012 to December 31, 2014. We also evaluated compliance with some requirements subsequent to that period when possible.

The objective of the audit was 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the East Pittsburgh Volunteer Firemen's 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 objective. 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, 2012 to December 31, 2014:

- The East Pittsburgh Volunteer Firemen's Relief Association, in all significant respects, received 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 – The Relief Association Failed To Comply With An Act 118 Requirements Regarding The Sale Of Property Through The Issuance Of An Interest-Free Installment Purchase Agreement

Finding No. 2 – Unauthorized Expenditure

- The East Pittsburgh Volunteer Firemen's Relief Association expended funds as presented in the Accompanying Expenditure Information and as of December 31, 2014, had a cash balance of \$20,847 and no investments.

Subsequent to the conclusion of our audit period the East Pittsburgh Volunteer Fire Department was decertified by the East Pittsburgh Borough effective June 18, 2015. On July 23, 2015, the relief association sold a building which it owned to an individual who was not a member of either the relief association or the East Pittsburgh Volunteer Fire Department for \$68,000. We found through review of documentation that the sales price was far below the assessed value of the property. The buyer is purchasing this property through the issuance of a mortgage agreement for \$60,000 at 0 percent interest from the relief association. Act 118 requires a minimum interest payment of 3% for mortgages issued by relief associations. The proceeds of the sale, which included a down payment of \$8,000 and the payment of \$880 in closing and escrow funds to the seller, will be made in quarterly payments totaling \$12,000 annually for 5 years. Based on these terms the mortgage agreement with the relief association will be paid in full on July 23, 2020.

The contents of this report were discussed with the management of the East Pittsburgh Volunteer Firemen's 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.

November 23, 2015



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Findings and Recommendations:	
Finding No. 1 – The Relief Association Failed To Comply With An Act 118 Requirement Regarding The Sale Of Property Through The Issuance of An Interest- Free Installment Purchase Agreement	3
Finding No.2 – Unauthorized Expenditure	4
Accompanying Expenditure Information	6
Report Distribution List	7

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 East Pittsburgh Volunteer Firemen's 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 East Pittsburgh Volunteer Firemen’s Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
East Pittsburgh	Allegheny	\$6,943	\$7,829	\$7,827

The volunteer firefighters’ relief association and the affiliated fire service organization are separate, legal entities. The East Pittsburgh Volunteer Firemen’s Relief Association is affiliated with the following fire service organization:

East Pittsburgh Volunteer Fire Department

EAST PITTSBURGH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – The Relief Association Failed To Comply With An Act 118 Requirement Regarding The Sale Of Property Through The Issuance Of An Interest-Free Installment Purchase Agreement

Condition: Subsequent to the audit period under review, on July 23, 2015, the relief association approved and agreed to sell a fire station house that was owned by the relief association to an individual who was not a member of the relief association for \$68,000, with an **interest free** mortgage for a five year term. The mortgage note was signed by both the buyer and the seller. The buyer paid \$8,000 for the down payment and \$880 in closing and escrow funds at the time of closing and agreed to make quarterly payments totaling \$12,000 annually to the relief association for the next five years. According to a relief association official, the building was sold because of the high cost of utilities and insurance on the building.

Other information known about the sale of the property:

- According to the Allegheny County Real Estate Office, the station house had a 2015 assessed value of \$149,500.
- The sales price of the property was \$83,000 below the assessed value of the property.

Also, according to a relief association official, the sale of the property was completed without any public notice or announcement of the relief association's intentions to sell the property. The relief association official stated that the selling price of the station house was in line with selling prices of comparable properties in the borough. Our audit did not include an assessment of the accuracy of the relief association official's statement. The association also agreed to allow the buyer five years to pay-off the balance owed with no interest assessed.

Act 118 requires that relief associations shall provide for a minimum interest payment of 3% for mortgages issued by relief associations. Additionally and at a minimum, prudent business practice suggests that the relief association provide public notice of the sale of property and also assess interest charges to the buyer on the five years of installment payments. These actions may have provided a higher offering price for the property and provided the interest income to compensate for not receiving full payment for the property at the time of sale.

Additionally, on June 16, 2015, the East Pittsburgh Volunteer Fire Department was decertified by the East Pittsburgh Borough. Therefore, the fire department will no longer respond to emergency calls within the East Pittsburgh Borough. According to a letter received by the secretary of the relief association, the remaining members of the volunteer fire department intend to continue as a search and rescue service. Even though the affiliated fire company has been decertified by the East Pittsburgh Borough, the relief association plans to continue to exist and expects to receive the loan payments from the sale of the station house in accordance with the terms of the mortgage.

EAST PITTSBURGH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(1) states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any form of investment named in 20 Pa.C.S. Ch. 73 (relating to municipalities investments). First mortgages insuring repayment of loans to the relief associations shall provide for a minimum interest payment of 3% and not exceed 80% of the appraised value of real property covered by the mortgage.

Cause: Relief association officials indicated that they were unaware of the Act 118 provisions concerning the minimum interest payment.

Effect: The relief association did not comply with Act 118 as a result of issuing an interest free mortgage and may have failed to perform their fiduciary duties in a prudent manner by selling property at a value that may have been significantly below market value.

Recommendation: We recommend that for subsequent transactions that the relief association officials comply with the Act 118 provisions for mortgages to provide the minimum interest rate for the relief association's investment as required by Act 118 at 35 Pa.C.S. § 7416(c)(1). 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.

Finding No. 2 – Unauthorized Expenditure

Condition: The relief association expended \$516 for maintenance on radios owned by the fire department. Costs associated with maintenance on equipment not owned by the relief association does not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this expenditure is not authorized under Act 118.

EAST PITTSBURGH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1) states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

Cause: Relief association officials indicated that they were unaware that the expenditure for the maintenance on radios not owned by the VFRA was not authorized by Act 118.

Effect: As a result of this improper expenditure, 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 \$516 for the unauthorized expenditure and that the relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) 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.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and subsequent to the period under review, on August 21, 2015, the relief association was reimbursed \$516 from the affiliated fire department.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$516 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

EAST PITTSBURGH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2014

USES OF FUNDS:

Benefit Services:

Insurance premiums	<u>\$ 28,396</u>
--------------------	------------------

Unauthorized Expenditure (refer to Finding No. 2)	<u>\$ 516</u>
---	---------------

EAST PITTSBURGH 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

East Pittsburgh Volunteer Firemen's Relief Association Governing Body:

Mr. Pat Gordon	President
Mr. Guy DePaulo	Vice President
Mr. Pat Geric	Secretary
Mr. William A. Stone Jr.	Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association:

Ms. Eileen Navish East Pittsburgh	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.