

COMPLIANCE AUDIT

Volunteer Firemen's Relief Association of Neshannock Township Lawrence County, Pennsylvania For the Period January 1, 2013 to December 31, 2014

February 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Gordon Windl, President
Volunteer Firemen's Relief Association
Of Neshannock Township
Lawrence County

We have conducted a compliance audit of the Volunteer Firemen's Relief Association Of Neshannock Township (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 relief association took appropriate corrective action to address the finding contained in our prior audit report.
2. To determine if the 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.

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 concluded that, for the period January 1, 2013 to December 31, 2014:

- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this report.
- The 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 –
Duplicate Payment

Finding No. 2 – Unsecured Loan

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.

February 19, 2016



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 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 relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>
Neshannock Township	Lawrence	\$69,026	\$65,750

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:

Neshannock Township Volunteer Fire Company

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF NESHANNOCK TOWNSHIP
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with the following prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Duplicate Payment

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.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF NESHANNOCK TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Duplicate Payment

Condition: As previously cited in our prior audit report, the relief association expended \$493 on July 1, 2011 for an additional premium due on the relief association's accident and sickness policy; and, on July 12, 2011, the relief association erroneously made a duplicate payment for the same \$493 insurance premium. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment. However, during the current audit period, this duplicate payment was not reimbursed to the relief association.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices.

Cause: Even though notified of this condition during our prior audit, the relief association again neglected to obtain reimbursement for the duplicate payment.

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

Recommendation: We again 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 subsequent to the period under review, on November 18, 2015, the relief association received reimbursement from the affiliated fire company in the amount of \$493 for the duplicate payment.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$493 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF NESHANNOCK TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unsecured Loan

Condition: On June 14, 2014, the relief association made an unsecured loan to the affiliated fire company in the amount of \$25,000. The relief association used the fire company's investment accounts as collateral; however, this collateral is not sufficient. Therefore, the loan is unsecured.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) 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 aware that the loan to the fire company must be secured to ensure compliance with Act 118 provisions. Officials thought that the loan had sufficient collateral. However, as a result of our audit, it was determined that this collateral was insufficient.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk.

Recommendation: We recommend that 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 Act 118 at 35 Pa.C.S. § 7416(c)(3). 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: As a result of our audit, since it was determined that the collateral for the loan was not sufficient, the relief association is placing a lien on the title for collateral. Compliance will be subject to verification through our next audit.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF NESHANNOCK TOWNSHIP
 SUPPLEMENTARY FINANCIAL INFORMATION
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2014

Cash Balance:	\$	110,602
Expenditures:		
Benefit Services:		
Insurance premiums	\$	66,317
Relief benefits		24,530
Total Benefit Services	\$	<u>90,847</u>
Fire Services:		
Equipment purchased	\$	50,464
Equipment maintenance		16,780
Training expenses		4,909
Fire prevention materials		1,204
Total Fire Services	\$	<u>73,357</u>
Administrative Services:		
Other administrative expenses	\$	30
Bond premiums		352
Total Administrative Services	\$	<u>382</u>
Total Investments Purchased	\$	<u>25,000</u>
Other Expenditures:		
Payments on loan	\$	<u>10,681</u>

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF NESHANNOCK TOWNSHIP
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Volunteer Firemen's Relief Association of Neshannock Township Governing Body:

Mr. Gordon Windl	President
Mr. Charles J. Chamberlain	Vice President
Mr. Edward Harris	Secretary
Mr. Justin Bittner	Treasurer

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

Ms. Leslie S. Bucci Neshannock Township	Secretary
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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.