

COMPLIANCE AUDIT

Port Carbon Firemen's Relief Association Schuylkill County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

March 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
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www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Michael E. Welsh, President
Port Carbon Firemen's Relief Association
Schuylkill County

We have conducted a compliance audit of the Port Carbon 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, 2012 to December 31, 2014.

The objective of the audit was 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 objective identified above.

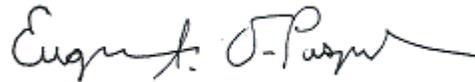
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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 objective. 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, 2012 to December 31, 2014, 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 finding listed below and discussed later in this report.

Finding – Inadequate Relief Association Bylaws (Discretionary Benefits)

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 response has 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.



EUGENE A. DEPASQUALE
Auditor General

March 10, 2016

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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. The relief association's bylaws define the specific operational procedures by which the 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 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 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>2012</u>	<u>2013</u>	<u>2014</u>
Mechanicsville Borough	Schuylkill	\$2,101	\$2,372	\$2,251
Port Carbon Borough	Schuylkill	\$8,568	\$9,691	\$9,223

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:

Good Will Fire Company No. 1

PORT CARBON FIREMEN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Inadequate Relief Association Bylaws (Discretionary Benefits)

Condition: The existing bylaws of the relief association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not address the following:

- Quorum requirements to hold an official meeting.
- Provision requiring the signature of at least two (2) officers, one of whom shall be the disbursing officer, in order to bind the association by formal contract or to issue any negotiable instrument.
- Provision requiring the disbursing officer to be bonded by corporate surety for the faithful performance of his/her duties in an amount at least as great as the maximum cash balance in current funds of the relief association at any time during the fiscal year.
- Provision establishing procedures for the approval and payment of expenditures and investments.
- Procedures to be followed in amending the bylaws.

In addition, the relief association did not formally define discretionary benefits that were being offered to its members. During the current audit period, the relief association paid officers' compensation to four members of the relief association. Although these expenditures were authorized by Act 118, the types, amounts, and criteria to be met before receiving these benefits were not described in a formal policy approved by the association membership.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(2-4, 6-10) states, the relief association's bylaws should include the following provisions:

- (2) State the notice requirements and procedure to be followed in calling meetings, as well as quorum requirements for regular and special meetings of the membership and for regular and special meetings of the body which governs the operations of the association between membership meetings, and shall designate that body, whether it be a board of directors, trustees or any similar body such as an executive committee. Unless otherwise provided for in the bylaws, powers and duties of officers, directors and trustees shall be those which normally pertain to such positions in nonprofit corporations.

PORT CARBON FIREMEN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

- (3) Require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.
- (4) Require 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 funds of the association.
- (6) Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.
- (7) Set out the procedure to be followed in amending bylaws.
- (8) Specify notice required with respect to proposed bylaw amendments, including the time, place and date when the proposed amendments shall be considered.
- (9) Be faithfully preserved, along with amendments thereto and the effective date of the amendments, in permanent form.
- (10) Contain such other provisions as may seem appropriate or necessary to the orderly conduct of affairs of the association.

Furthermore, prudent business practice dictates that when a relief association offers any type of discretionary benefit provided by Act 118, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well.

Cause: Relief association officials indicated that they were unaware of the specific bylaw stipulations established by Act 118 and did not perceive the formal approval to be an essential internal control in safeguarding relief association assets. As a result, relief association officials failed to establish procedures to formally define the benefits and related criteria for the benefits offered to members.

PORT CARBON FIREMEN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization. In addition, the relief association's failure to formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the association.

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of the relief association. 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.

PORT CARBON FIREMEN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2014

Cash Balance:	\$	24,162
Expenditures:		
Benefit Services:		
Insurance premiums	\$	<u>2,943</u>
Fire Services:		
Equipment purchased	\$	16,292
Equipment maintenance		5,770
Training expenses		<u>2,253</u>
Total Fire Services	\$	<u>24,315</u>
Administrative Services:		
Officer compensation	\$	1,875
Other administrative expenses		1,536
Bond premiums		<u>375</u>
Total Administrative Services	\$	<u>3,786</u>

PORT CARBON FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Port Carbon Firemen's Relief Association Governing Body:

Mr. Michael E. Welsh
President

Mr. Jerry Richter
Vice President

Ms. Tara Welsh
Secretary

Mr. Benjamin C. Schuettler
Treasurer

Mr. Randy Taylor
Director

Mr. Michael Leibensperger
Director

Mr. Christopher Keip
Director

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

Ms. Beverly Riotto
Secretary
Mechanicsville Borough

Ms. Sandra Palokas
Secretary
Port Carbon Borough

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.