

COMPLIANCE AUDIT

Allison No. 1 Volunteer Fire Department Relief Association Fayette County, Pennsylvania For the Period January 1, 2013 to May 31, 2017

September 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Tyler Brumley, President
Allison No. 1 Volunteer Fire Department
Relief Association
Fayette County

We have conducted a compliance audit of the former Allison No. 1 Volunteer Fire Department 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 May 31, 2017.

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 May 31, 2017:

- The status of the former relief association's findings contained in our prior audit report are discussed in the Status of Prior Findings section of this 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.

On March 5, 2017, relief association members formally met to commence the liquidation of the former relief association's investments and formally agreed to proceed with donating all of the remaining assets of the former relief association to Allison #2 VFD Firemen's Relief Association (VDFRA) after the satisfaction of any and all remaining outstanding debts incurred on behalf of the former relief association. As such, this report represents the final audit of this former relief association. The transfer of the former relief association's remaining assets will be reviewed for confirmation during the next audit performed of Allison #2 VDFRA.

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. We would like to thank former relief association officials for the cooperation extended to us during the conduct of the audit.

August 3, 2017



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 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. Volunteer firefighters' 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 did not receive a distribution of state aid from any municipality during the current audit period and has not received such a distribution since 2010. Previously, as of December 14, 2011, the affiliated fire service organization was placed on stand-down status by the former funding municipality Redstone Township, due to allegations of financial and operational improprieties occurring within the affiliated fire department. A municipality has full discretion in distributing state aid to any relief association providing fire service for the municipality.

The former relief association and the affiliated fire service organization are separate legal entities. The former relief association was affiliated with the former Allison No. 1 Volunteer Fire Department fire service organization which, as noted above, has not provided fire service to the municipality since December 14, 2011, and the relief association has basically been dormant since such date. Consequently, the relief association is no longer affiliated with a volunteer fire company for the purpose of providing fire service to the township. Act 118 prescribes specific requirements for what constitutes a Volunteer Firefighters' Relief Association and when such an organization can receive aid funds under that Act.

Act 118 at 35 Pa.C.S. § 7412 states in part, that the Volunteer Firefighters' Relief Association is:

An organization formed primarily to afford financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter...(Emphasis added.)

Act 118 at 35 Pa.C.S. § 7412 further states in part, that a Volunteer Firefighter is:

A person who is a member of:

- (1) a fire company organized and existing under the laws of this Commonwealth;
- (2) a fire police unit, rescue squad, ambulance corps or other like organization affiliated with one or more fire companies; or (Emphasis added.)
- (3) a fire company or affiliated organization which participates in the fire service but does not look to that service as his or her primary means of livelihood.

As of December 14, 2011, the former relief association no longer meets the statutory definition of a volunteer firefighter's relief association.

BACKGROUND – (Continued)

On March 5, 2017, several remaining relief association members collectively met to reorganize and establish a temporary board of relief association officers for the purpose of conducting relief association business, passing resolutions and determining the future of the dormant relief association and its remaining assets which were tied up in a custodial account maintained with an investment broker. The relief association board unanimously moved in the minutes of the aforementioned meeting to liquidate the remaining investment account, attempt to collect on an outstanding obligation due the relief association from the defunct fire department as disclosed in the prior audit report and again referred to in the Status of Prior Findings: *Inappropriate Ownership of Funds* section of this report, contact and pay the outstanding liabilities due to two vendors for previously purchased equipment and supplies and to donate any remaining assets of the former relief association to Allison #2 VDFRA after all outstanding obligations are satisfied.

Prudent business practice dictates that relief associations contemplating dissolutions and/or mergers should consider retaining legal counsel to provide assurance that any form of dissolution complies with applicable laws and regulations governing non-profit charitable organizations and that all benefits owed to active and former association members are maintained and protected. In addition, if this is the case, it would be prudent that the remaining relief association members perform the following and provide final supporting documentation to this department:

- Provide full documentation of the final monetary assets and equipment being transferred. A complete inventory of all equipment should be performed and a listing of the equipment transferred should be completed.
- Upon transfer of the equipment, a signed receipt from the relief association receiving the equipment should be obtained to verify items of equipment transferred. Those items of equipment then become assets to the recipient relief association and should be added to that relief association's equipment roster.

The department will verify the receipt of the equipment and monetary assets transferred through an audit of the recipient association: Allison #2 VDFRA.

ALLISON NO. 1 VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

STATUS OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

As noted earlier in this report, relief association members formally met to commence the liquidation of the former relief association's investments and formally agreed to proceed with donating all of the remaining assets of the former relief association to Allison # 2 VFDFRA after the satisfaction of any and all remaining outstanding debts incurred on behalf of the former relief association. As such, officials of Allison # 2 VFDFRA were provided copies of this former entity's final audit report so that they were made aware of conditions that were detected in the operations of the former relief association during the course of the final audit, and the recommended corrective action noted in this former relief association's final audit report. The former relief association's status of recommended corrective action relative to these issues is as follows:

- Failure To Maintain Surety (Fidelity) Bond Coverage

In the prior audit, we again recommended that relief association officials maintain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by Act 118. No action was taken by the former relief association. Since the former relief association liquidated its remaining assets for subsequent distribution to Allison # 2 VFDFRA, no further corrective action is required by the former relief association at this time.

- Inappropriate Ownership Of Funds

In the prior audit, we recommended that former relief association officials seek to have the balance of a formal written agreement entered into with the fire department on December 11, 2011 for the inappropriate disposition of a relief association asset by former fire department personnel to reimburse the relief association \$9,569 plus two percent interest over a three year period, paid by the fire company as stated in the promissory note between the parties. No action was taken by the former relief association; however, we recommend that officials currently responsible for overseeing final dissolution of the former relief association determine if the remaining outstanding balance can be recouped from the former fire company prior to final distribution of the former relief association's remaining funds to Allison # 2 VFDFRA.

- Inadequate Signatory Authority For The Disbursement Of Funds

In the prior audit, we recommended that former relief association officials establish adequate internal control procedures to ensure that the signatures of at least two authorizing relief association officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118. No action was taken by the former relief association. Since the former relief association liquidated its remaining assets for subsequent distribution to Allison # 2 VFDFRA, no further corrective action is required by the former relief association at this time.

ALLISON NO. 1 VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

- Failure To Maintain Minutes Of Meetings

We recommended former relief association officials maintain a permanent record of all relief association meetings as required by Act 118 which included an adequate record of all financial-related business conducted by the relief association. No action was taken by the former relief association. Since the former relief association liquidated its remaining assets for subsequent distribution to Allison # 2 VDFRA, no further corrective action is required by the former relief association at this time.

- Failure To Maintain A Complete And Accurate Equipment Roster

We recommended former relief association officials maintain a cumulative equipment roster of all relief association equipment and ensure the performance of an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. No action was taken by the former relief association, and based on an inspection performed independently by our Office of Chief Counsel-Special Investigations Unit, most of the equipment was stolen. Since the former relief association liquidated its remaining assets for subsequent distribution to Allison # 2 VDFRA, we recommend that any remaining operable equipment be inventoried and appropriately transferred upon final dissolution to Allison # 2 VDFRA.

ALLISON NO. 1 VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 CASH AND INVESTMENT BALANCES
 AS OF MAY 31, 2017

Cash	\$	100
Fair Value of Investments*		64,128
Loan to the Affiliated Fire Company**		<u>9,569</u>
Total Cash and Investments	<u>\$</u>	<u>73,797</u>

Note:

* Investment value presented above is as of May 31, 2017 while awaiting the results of final distribution from the financial institution pertaining to the liquidation of the account during the dissolution process as executed by interim officials overseeing final dissolution of assets of the former relief association.

** Amount represents the outstanding balance of a loan agreement entered into by the affiliated fire company for the inappropriate disposition of a relief association asset by former fire department personnel, without calculated interest on the loan. Refer to the Status of Prior Findings: *Inappropriate Ownership of Funds* section of this report for more information.

ALLISON NO. 1 VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2013 TO MAY 31, 2017

Expenditures:

Administrative Services:

Other administrative expenses	\$ 150
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Total Expenditures	\$ 150
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ALLISON NO. 1 VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Allison No. 1 Volunteer Fire Department Relief Association Governing Body:

Mr. Tyler Brumley
President

Mr. Tom Tiernan
Vice President

Ms. Angela Zimmerlink
Secretary

Mr. Tom Zimmerlink, Jr.
Treasurer

Allison #2 V.F.D. Firemen's Relief Association Governing Body:

Mr. Albert Kishel Jr.
President

Mr. Nelson Gillis
Vice President

Ms. Karen Holland
Secretary

Mr. Richard L. Marker
Treasurer

ALLISON NO. 1 VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Mr. George A. Matis
Secretary
Redstone 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.