

COMPLIANCE AUDIT

Grapeville Volunteer Fire Company Relief Association Westmoreland County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

August 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Anthony J. Tocco, Jr., President
Grapeville Volunteer Fire Company
Relief Association
Westmoreland County

We have conducted a compliance audit of the Grapeville Volunteer Fire Company 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 December 31, 2015.

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.

This report is a revised report previously dated May 13, 2016, and is revised to modify the finding contained in our report to include information related to disclosure of related party transactions, which was inadvertently omitted from our original report.

We were not able to obtain an independent confirmation of a portion of the total cash balance directly from the financial institution. Therefore, while the relief association provided copies of bank statements that indicated that, as of December 31, 2015, the relief association had a total cash balance of \$41,291, we were not able to verify \$22,792 of this cash balance.

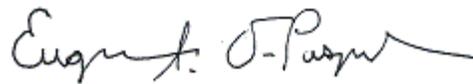
Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2013 to December 31, 2015, the relief association, in all significant respects, received state aid and expended state aid and accumulated relief 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 Minutes of Meetings And Disclosure Of Related Party Transactions

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.

July 14, 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 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Hempfield Township	Westmoreland	\$25,025	\$23,690	\$22,945

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:

Grapeville Volunteer Fire Company

GRAPEVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Inadequate Minutes Of Meetings And Disclosure Of Related Party Transactions

Condition: The relief association failed to maintain detailed minutes of meetings as required by Act 118. Specifically, the relief association’s minutes did not address all of the financial-related transactions that occurred during the audit period which included business transacted between the relief association and a vendor owned by a relief association officer. During the current audit period, the relief association expended \$30,956 with this vendor for equipment and services. However, without detailed minutes of meetings, we were unable to determine if these transactions were properly disclosed to the membership or whether the member involved with this business that is party to the related party transaction properly abstained from voting on such transactions.

A related party transaction occurs when the relief association does business with a vendor that employs or is owned by a relief association officer or a member of an officer’s immediate family. Such a transaction may provide a less than arm’s length financial benefit to such officer or member of such officer’s immediate family through a commission or a profit from a sale.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

. . . Must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, ethics laws state that all potential related party transactions should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, all officers and/or members involved with a business that is party to the related party transaction should abstain from all votes concerning such transactions.

Cause: Relief association officials indicated that they were unaware that maintaining detailed minutes of meetings was required by Act 118 and that ethics laws require that related party transactions should be disclosed in the minutes to the membership.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist. In addition, the failure to properly disclose related party transactions may create potential conflicts of interest which could result in the relief association being involved in less than arm’s length financial transactions.

Recommendation: We recommend that the relief association officials maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

GRAPEVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued):

We also recommend that relief association officials take the actions necessary to eliminate the appearance of conflicts of interests. Actions should include, but are not limited to, written notification to the relief association membership for each related party transaction, and the abstention from decisions and voting rights by the relief association officials who are involved owners of businesses that have business dealings with the relief association. These actions should be documented in the relief association's minutes. Furthermore, the relief association officials should closely review all related party transactions to ensure that all transactions are at arm's length, i.e., the cost of the services rendered by the firm is competitive.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated that they will take action to comply with the recommendation. In addition, subsequent to the audit period, relief association officials provided a written notification signed March 26, 2016 by the relief association officer owning a business that conducts business with the relief association indicating that the member will charge the same or less than that charged to a similar organization for the same services, abstain from any vote which would be used to approve the purchase or payment of any product or service offered by the member-owned vendor and acknowledges that the relief association will continue to closely review all related party transactions that the charges and services are competitive.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

GRAPEVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2015

Cash	\$ 41,291
Fair Value of Investments	<u>42,646</u>
Total Cash and Investments	<u>\$ 83,937</u>

GRAPEVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:

Insurance premiums	\$ 24,112
Death benefits	7,500
Tokens of sympathy and goodwill	1,587
Total Benefit Services	<u>\$ 33,199</u>

Fire Services:

Equipment purchased	\$ 51,196
Equipment maintenance	29,145
Training expenses	88
Total Fire Services	<u>\$ 80,429</u>

Administrative Services:

Other administrative expenses	1,846
Bond premiums	500
Total Administrative Services	<u>\$ 2,346</u>

TOTAL EXPENDITURES	<u>\$ 115,974</u>
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GRAPEVILLE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Grapeville Volunteer Fire Company Relief Association Governing Body:

Mr. Anthony J. Tocco, Jr.
President

Mr. Daniel P. Nescot
Fire Chief

Ms. Amber Lynn Werner
Secretary

Mr. William G. Kimmel
Treasurer

Mr. Jerrod Anker
Head Trustee

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

Mr. Andrew L. Walz
Secretary
Hempfield 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.