COMPLIANCE AUDIT

The Hannastown Volunteer Firemen's 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. Merell Dominick, President
The Hannastown Volunteer Firemen's
Relief Association
Westmoreland County

We have conducted a compliance audit of The Hannastown Volunteer 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, 2013 to December 31, 2015.

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 conclude that, for the period January 1, 2013 to December 31, 2015:

- 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 finding listed below and discussed later in this report.

  Finding – Non-Compliance with prior audit recommendation – Insufficient Surety (Fidelity) Bond Coverage

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.

August 18, 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:

Municipality	County	2013	2014	2015
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:

Hannastown Volunteer Fire Department

THE HANNASTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
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 Finding and Recommendation section of this report:

- Insufficient Surety (Fidelity) Bond Coverage

We are concerned by the relief association's failure to correct this previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

THE HANNASTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding –Noncompliance With Prior Audit Finding And Recommendation - Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was $100,000; however, as of December 31, 2015, the relief association's cash assets totaled $114,501.

A similar condition was noted in our prior audit report.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, 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 the funds of the association.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

Effect: As a result of the authorized disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We again recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Finding – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and subsequent to the audit period, as of June 29, 2016, the relief association increased bond coverage to an amount greater than the relief association's cash assets.

Auditor's Conclusion: We reviewed the documentation verifying the increase in bond coverage as of June 29, 2016. Compliance for maintaining adequate bond coverage will be subject to verification through our next audit.

THE HANNASTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2015

Cash	$ 114,501
Fair Value of Investments	50,000
Total Cash and Investments	$ 164,501

THE HANNASTOWN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:		
Benefit Services:		
Insurance premiums	$	4,797
Death benefits		4,000
Tokens of sympathy and goodwill		100
Total Benefit Services	$	8,897
Fire Services:		
Equipment purchased	$	33,030
Equipment maintenance		4,935
Training expenses		474
Total Fire Services	$	38,439
Administrative Services:		
Other administrative expenses	$	994
Bond premiums		750
Total Administrative Services	$	1,744
Total Expenditures	$	49,080

THE HANNASTOWN 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

The Hannastown Volunteer Firemen's Relief Association Governing Body:

Mr. Merell Dominick
President

Mr. Thomas Stefanik
Treasurer

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.