

COMPLIANCE AUDIT

Loretto Community Fireman's Relief Association of Loretto PA Cambria County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

March 2018



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
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Greg Farabaugh, President
Loretto Community Fireman's Relief
Association of Loretto PA
Cambria County

We have conducted a compliance audit of the Loretto Community Fireman's Relief Association of Loretto PA (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, 2015 to December 31, 2017.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the findings contained in our prior audit report.
2. To determine if the 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, 2015 to December 31, 2017:


- The relief association took appropriate corrective action to address the findings contained in our prior audit report.
- The 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, except as noted in the finding listed below and discussed later in this report.

Finding – Untimely Receipt And Deposit Of State Aid

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.

March 15, 2018


EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	3
Finding and Recommendation:	
Finding – Untimely Receipt And Deposit Of State Aid.....	4
Supplementary Financial Information	6
Report Distribution List	8

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. 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 relief association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Allegheny Township	Cambria	\$6,803	\$6,778	\$6,259
Loretto Borough	Cambria	\$4,869 *	\$4,857 *	\$4,479 *

* The 2015, 2016 and 2017 state aid allocations received from Loretto Borough were not deposited by the relief association until February 13, 2018 as disclosed in the finding in this report.

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:

Loretto Community Volunteer Fire Company

LORETTO COMMUNITY FIREMAN'S RELIEF ASSOCIATION OF LORETTO PA
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has complied with the prior audit findings and recommendations, as follows:

- Undocumented Expenditure

By receiving reimbursement of \$11,661 from the affiliated fire company for the undocumented expenditure that was made in the prior audit period.

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

LORETTO COMMUNITY FIREMAN'S RELIEF ASSOCIATION OF LORETTO PA
FINDING AND RECOMMENDATION

Finding – Untimely Receipt And Deposit Of State Aid

Condition: The relief association did not deposit the 2015, 2016 and 2017 state aid allocations it received from Loretto Borough, in the amounts of \$4,869, \$4,857 and \$4,479, respectively, until February 13, 2018. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 23, 2015, September 20, 2016 and September 25, 2017, who forwarded this state aid to the relief association on October 12, 2015, October 10, 2016, and October 9, 2017, respectively, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, the state aid allocations were erroneously deposited into the affiliated fire company's account. Therefore, the relief association did not ensure the funds were received and deposited timely into a relief association account. As a result of our audit, on February 13, 2018, the relief association deposited \$14,205 into a relief association account.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practices dictate that upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are received and deposited in a timely manner.

Cause: Relief association officials failed to establish internal control procedures which require that all income received be recorded and deposited into a relief association account in a timely manner. The municipality inadvertently sent the state aid allocations to the affiliated fire company and the affiliated fire company erroneously deposited the checks into their own account.

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds increases the risk that funds could be lost or misappropriated.

LORETTO COMMUNITY FIREMAN'S RELIEF ASSOCIATION OF LORETTO PA
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that relief association officials establish accounting and internal control procedures to ensure that all state aid is received in a timely manner and deposited into a relief association account. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely receipt and deposit of all future income due 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.

LORETTO COMMUNITY FIREMAN'S RELIEF ASSOCIATION OF LORETTO PA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2017

Cash	<u>\$ 11,371</u>
------	------------------

LORETTO COMMUNITY FIREMAN'S RELIEF ASSOCIATION OF LORETTO PA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:

Insurance premiums	\$ 6,845
--------------------	----------

Fire Services:

Equipment purchased	\$ 40,437
---------------------	-----------

Equipment maintenance	449
-----------------------	-----

Training expenses	4,377
-------------------	-------

Total Fire Services	<u>\$ 45,263</u>
---------------------	------------------

Administrative Services:

Other administrative expenses	\$ 6,828
-------------------------------	----------

Bond premiums	250
---------------	-----

Total Administrative Services	<u>\$ 7,078</u>
-------------------------------	-----------------

Total Expenditures	<u><u>\$ 59,186</u></u>
--------------------	-------------------------

LORETTO COMMUNITY FIREMAN'S RELIEF ASSOCIATION OF LORETTO PA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Loretto Community Fireman's Relief Association of Loretto PA Governing Body:

Mr. Greg Farabaugh
President

Mr. Ethan Schenk
Vice President

Ms. Kristin Eckenrode
Secretary

Ms. Jeanine Farabaugh
Treasurer

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

Ms. Debra Hoover
Secretary
Allegheny Township

Ms. Maxine Shoff
Secretary
Loretto 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.