

COMPLIANCE AUDIT

Lower Allen Fire Co. No. 1 Relief Association Cumberland County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

August 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Ms. Rebecca Maher, President
Lower Allen Fire Co. No. 1
Relief Association
Cumberland County

We have conducted a compliance audit of the Lower Allen Fire Co. No. 1 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, 2014 to December 31, 2016.

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 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.

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, 2014 to December 31, 2016:

- The relief association took appropriate corrective action to address the finding 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 – Failure To Secure Ownership Interest In Jointly Purchased Vehicles

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 10, 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 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Lower Allen Township	Cumberland	\$110,398	\$107,341	\$107,405

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:

Lower Allen Fire Co. No. 1

LOWER ALLEN FIRE CO. NO. 1 RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Unauthorized Expenditure

By receiving reimbursement of \$5,247 from the affiliated fire company for the unauthorized expenditure made in the prior audit period.

LOWER ALLEN FIRE CO. NO. 1 RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Failure To Secure Ownership Interest In Jointly Purchased Vehicles

Condition: In January of 2015 and December of 2016, the relief association expended \$22,626 and \$19,751, respectively, for the purpose of jointly purchasing a 2015 Ford Explorer and a 2017 Ford Explorer with the affiliated fire company. However, the relief association did not adequately secure its ownership interest in the two jointly purchased vehicles as the vehicles were titled solely in the name of the affiliated fire company.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicles by executing two formal written agreements that enumerates the relief association's proportional share of financing. Such agreements shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicles, in the event the vehicles are ever sold.

Cause: Relief association officials failed to adequately secure its proportional ownership interest in the jointly purchased vehicles.

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicles places the relief association's ownership interest at greater risk.

Recommendation: We recommend that the relief association officials execute two formal written agreements with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased vehicles as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicles are ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$42,377. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

LOWER ALLEN FIRE CO. NO. 1 RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Relief association management indicated the following:

The Lower Allen Fire Co Fireman's Relief Association has practiced keeping inventory of any and all items including those installed in or on Fire Company owned vehicles and have tracked the sale of such equipment and have ensured the appropriate share of funds from the sale of such equipment was returned to the relief association for the associated relief equipment.

During the audit, the auditor requested the relief association execute a signed agreement with the Fire Company to memorialize this practice in a formal agreement. The relief association immediately complied with this request and provided the auditor with copies of these agreements.

Auditor's Conclusion: Based on the management response, we reviewed the formal agreements provided on June 15, 2017 by relief association officials. Continued compliance will be subject to verification through our next audit.

LOWER ALLEN FIRE CO. NO. 1 RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2016

Cash	\$ 334,302
Fair Value of Investments	<u>967,128</u>
Total Cash and Investments	<u>\$ 1,301,430</u>

LOWER ALLEN FIRE CO. NO. 1 RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 64,463
Relief benefits	2,271
Total Benefit Services	<u>\$ 66,734</u>
Fire Services:	
Equipment purchased	\$ 216,707
Equipment maintenance	43,241
Training expenses	5,015
Total Fire Services	<u>\$ 264,963</u>
Administrative Services:	
Other administrative expenses	\$ 78
Bond premiums	788
Total Administrative Services	<u>\$ 866</u>
Total Expenditures	<u><u>\$ 332,563</u></u>

LOWER ALLEN FIRE CO. NO. 1 RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Lower Allen Fire Co. No. 1 Relief Association Governing Body:

Ms. Rebecca Maher
President

Mr. Eric Tamosaitis
Vice President

Ms. Pam Tkac
Secretary

Mr. David Murdoch
Treasurer

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

Ms. Helen Grundon
Secretary
Lower Allen 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.