

COMPLIANCE AUDIT

New Haven Hose Company Volunteer Relief Association

Fayette County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2016

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. Joseph Mancuso, President
New Haven Hose Company Volunteer
Relief Association
Fayette County

We have conducted a compliance audit of the New Haven Hose Company Volunteer 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, 2015 to December 31, 2016.

The objective of the audit was 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 objective 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 objective. 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, 2016, 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 findings listed below and discussed later in this report.

Finding No. 1 – Unauthorized Expenditures

Finding No. 2 – Failure To Maintain Minutes Of Meetings

Finding No. 3 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

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 responses have 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 17, 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. 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 relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2015</u>	<u>2016</u>
Connellsville City	Fayette	\$31,569	\$34,176

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:

New Haven Hose Company Volunteer Fire Company

NEW HAVEN HOSE COMPANY VOLUNTEER RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
09/07/16	1518	Inspections on fire company owned vehicles	\$ 99
11/15/16	1527	Insurance on fire company property	1,474
Total			<u>\$ 1,573</u>

A similar condition occurred subsequent to the current audit period. The relief association expended additional funds for the following items that are also not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
01/27/17	1538	Insurance on fire company property	\$ 1,474
02/14/17	1542	Maintenance on a fire company owned vehicle	10,419
Total			<u>\$ 11,893</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f) (1,2,4,8) states:

The funds of any volunteer firefighters' relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.
- (2) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

NEW HAVEN HOSE COMPANY VOLUNTEER RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

- (4) To pay in full or in part for damage or loss in any of the categories mentioned in paragraph (2) above in a specific case where; (i) no policy of insurance is in force covering the risk; or (ii) the amount payable under insurance policies in force is inadequate to cover the loss.
- (8) To contribute to or to purchase contracts of insurance which will contribute to the cost of rehabilitating and retraining volunteer firefighters who, by reason of their participation in the fire service, have suffered a major impairment of the ability to continue their vocation.

The costs associated with insurance for and the maintenance of fire company owned property do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118.

Recommendation: We recommend that the relief association be reimbursed \$13,466 for the unauthorized expenditures and that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of future expenditures 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 as a result of our audit, subsequent to our audit, on June 19, 2017 and on June 23, 2017 the affiliated fire company reimbursed the relief association \$10,418 and \$3,048 respectively, for the unauthorized expenditures.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$13,466 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

NEW HAVEN HOSE COMPANY VOLUNTEER RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Maintain Minutes Of Meetings

Condition: The relief association did not maintain minutes for the year 2015, however, the relief association did maintain 2016 minutes of meetings as required by Act 118.

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.

Cause: Relief association officials indicated that they were aware that minutes for relief association meetings were not maintained as required by Act 118 for 2015.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend that relief association officials maintain a permanent record of all relief association meetings as required by Act 118 for all meetings held during subsequent periods. The minutes should include an adequate record 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.

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.

NEW HAVEN HOSE COMPANY VOLUNTEER RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Condition: On March 24, 2016, the relief association expended \$5,717 towards equipment purchased jointly with the affiliated fire company; however, the relief association did not adequately secure its ownership interest in this equipment by executing a formal written agreement with the fire company. The total cost of the self-contained breathing apparatus (SCBAs) and related peripheral equipment purchased with FEMA grant funds by the fire company totaled \$114,353. Relief association officials improperly recorded their investment interest in this equipment, in the amount of \$5,717, on the relief association's cumulative equipment roster since, as of the date of this report, the relief association has not taken ownership of this equipment and there is no formal written agreement specifying the term for which the fire company will retain ownership of the equipment purchased with grant funds and indicating whether that equipment will be transferred to the relief association after the grant requirements are fulfilled.

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.

Federal grant regulations require that the fire company retain ownership of the equipment purchased with grant monies for a minimum required period. The fire company and the relief association must enter into an agreement which provides that the ownership of the equipment will be transferred to the relief association after the grant requirements are fulfilled. Upon transfer of ownership, the equipment should be listed on the relief association cumulative equipment roster.

Additionally, prudent business practice dictates that the relief association secure its proportional ownership interest in the equipment purchased by enumerating the relief association's proportional share of financing in the agreement. Such agreement shall also specify that the relief association receive its prorated share of the proceeds upon sale of said equipment, in the event the equipment is ever sold.

Cause: Relief association officials failed to adequately secure its proportional ownership of the purchased equipment, and although relief association officials recorded the amount expended towards the jointly purchased equipment on the relief association's equipment roster (\$5,717), the relief association does not have ownership of such equipment while in the grant period.

NEW HAVEN HOSE COMPANY VOLUNTEER RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: The failure to adequately secure its proportional share of ownership interest for the purchased equipment places the relief association's ownership interest at greater risk.

Recommendation: We recommend that relief association officials execute a formal written agreement with the fire company which: (1) specifies the minimum required period of ownership of the equipment acquired with grant monies by the fire company; and (2) provides that the ownership of this equipment will transfer to the relief association after the grant requirements are fulfilled. If such action is not taken, we recommend that the relief association be reimbursed \$5,717. 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.

NEW HAVEN HOSE COMPANY VOLUNTEER RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2016

Cash	\$ 19,430
Book Value of Other Investments	<u>290,230</u>
Total Cash and Investments	<u>\$ 309,660</u>

NEW HAVEN HOSE COMPANY VOLUNTEER RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:

Insurance premiums	\$ 22,603
Death benefits	11,000
Tokens of sympathy and goodwill	750
Total Benefit Services	<u>\$ 34,353</u>

Fire Services:

Equipment purchased	\$ 14,559
Equipment maintenance	20,088
Training expenses	4,037
Total Fire Services	<u>\$ 38,684</u>

Administrative Services:

Other administrative expenses	\$ 1,000
Bond premiums	1,742
Total Administrative Services	<u>\$ 2,742</u>

Total Investments Purchased	<u>\$ 70,000</u>
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Other Expenditures:

Unauthorized expenditures*	<u>\$ 1,573</u>
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Total Expenditures	<u><u>\$ 147,352</u></u>
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* The unauthorized expenditures identified in the chart above represent the total amount of unauthorized expenditures made during the current audit period. As previously discussed in Finding No. 1 of this report, the relief association made additional unauthorized expenditures in the amount of \$11,893 subsequent to the current audit period.

NEW HAVEN HOSE COMPANY VOLUNTEER RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

New Haven Hose Company Volunteer Relief Association Governing Body:

Mr. Joseph Mancuso
President

Mr. Bruce Jaynes
Vice President

Mr. William Mickey
Secretary

Mr. Charles Matthews
Treasurer

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

Mr. Vernon E. Ohler
City Clerk
Connellsville City

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.