

COMPLIANCE AUDIT

Volunteer Firefighters' Relief
Association of the
Friendship Hose Company No. 1,
Orwigsburg, Pennsylvania
Schuylkill County
For the Period
January 1, 2013 to December 31, 2016

April 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. David J. Hardinger, President
Volunteer Firefighters' Relief Association Of The Friendship
Hose Company No. 1, Orwigsburg, Pennsylvania
Schuylkill County

We have conducted a compliance audit of the Volunteer Firefighters' Relief Association Of The Friendship Hose Company No. 1, Orwigsburg, Pennsylvania (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, 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, 2013 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 – Inadequate Documentation Of Mortgage

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. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

April 11, 2017



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Finding	3
Finding – Inadequate Documentation Of Mortgage.....	4
Supplementary Financial Information	5
Report Distribution List	7

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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
North Manheim Township	Schuylkill	\$ 4,439	\$ 4,189	\$ 3,973	\$ 4,744
Orwigsburg Borough	Schuylkill	\$19,357	\$18,331	\$17,390	\$17,358

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:

Friendship Hose Company No. 1

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OF THE FRIENDSHIP HOSE
COMPANY NO. 1, ORWIGSBURG, PENNSYLVANIA
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:

- Insufficient Surety (Fidelity) Bond Coverage

By increasing the surety (fidelity) bond coverage to an amount greater than the balance of the relief association's cash assets.

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OF THE FRIENDSHIP HOSE
COMPANY NO. 1, ORWIGSBURG, PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – Inadequate Documentation Of Mortgage

Condition: On January 26, 2016, the relief association granted a mortgage to the affiliated fire company in the amount of \$50,000; however, we could not verify whether the mortgage was adequately secured due to a lack of appropriate supporting documentation evidencing the relief association's first lien position or the appraised value of the property securing the loan.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(1) and (2) state:

- (1) In any form of investment named in 20 Pa.C.S. Ch. 73 (relating to municipalities investments). First mortgages insuring repayment of loans by relief associations shall provide for a minimum interest payment of 3% and not exceed 80% of the appraised value of real property covered by the mortgage.

- (3) In any obligation of an incorporated fire company, provided that the obligation is:
 - (i) Secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made.

 - (ii) Subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

Cause: Relief association officials indicated that they were unaware of the Act 118 provisions concerning the security requirements for mortgages.

Effect: Since relief association officials could not provide documentation of their first lien position or the appraised value of the property, this mortgage is not considered to be secured as required by Act 118. Failure to properly secure the mortgage places the investment at greater risk.

Recommendation: We recommend that the relief association officials provide verification of first lien position and provide documentation of the appraised value of the property. If such documentation cannot be acquired, we recommend that the mortgage be immediately liquidated. 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.

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OF THE FRIENDSHIP HOSE
COMPANY NO. 1, ORWIGSBURG, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2016

Cash	\$ 27,619
Fair Value of Investments	176,155
Book Value of Other Investments	<u>50,000</u>
Total Cash and Investments	<u>\$ 253,774</u>

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OF THE FRIENDSHIP HOSE
 COMPANY NO. 1, ORWIGSBURG, PENNSYLVANIA
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 18,020
Fire Services:	
Equipment purchased	\$ 63,113
Equipment maintenance	15,573
Training expenses	1,593
Total Fire Services	\$ 80,279
Administrative Services:	
Other administrative expenses	\$ 30
Bond premiums	502
Total Administrative Services	\$ 532
Investments Purchased	\$ 50,000
Total Expenditures	\$ 148,831

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OF THE FRIENDSHIP HOSE
COMPANY NO. 1, ORWIGSBURG, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Volunteer Firefighters' Relief Association Of The Friendship Hose Company No. 1, Orwigsburg,
Pennsylvania Governing Body:

Mr. David J. Hardinger
President

Mr. Kyle Schoeneman
Vice President

Mr. Jesse D. Zimmerman
Secretary

Mr. Allan C. Shepler
Treasurer

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

Ms. Barbara G. Miller
Secretary
North Manheim Township

Ms. Sherry M. Edwards
Secretary
Orwigsburg 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.