

COMPLIANCE AUDIT

Port Matilda Firemen's Relief Association Centre County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

September 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Dean Rudy, Sr., President
Port Matilda Firemen's Relief Association
Centre County

We have conducted a compliance audit of the Port Matilda 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 findings 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 took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- Because of the significance of the matters described in the findings below and discussed later in this report, the relief association did not, in all significant respects, receive state aid and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Insufficient Surety (Fidelity) Bond Coverage

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Inadequate Relief Association Bylaws

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 26, 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Halfmoon Township	Centre	\$14,377	\$12,819	\$14,110
Huston Township	Centre	\$ 9,237	\$ 8,753	\$ 8,386
Port Matilda Borough	Centre	\$ 3,324	\$ 3,150	\$ 3,039
Taylor Township	Centre	\$ 2,811	\$ 2,721	\$ 2,622
Worth Township	Centre	\$ 5,838	\$ 5,530	\$ 5,295

The volunteer firefighters' relief association and the affiliated fire service organizations are separate, legal entities. The relief association is affiliated with the following fire service organization:

Port Matilda Fire Company, Inc.

PORT MATILDA FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain A Complete And Accurate Equipment Roster

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

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with 1 of the 2 prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Insufficient Surety (Fidelity) Bond Coverage

Although the VFRA increased their bond coverage to an amount greater than the balance of the relief association's cash assets during the audit period, the relief association did not maintain adequate bond coverage in a sufficient amount to cover the relief association's authorized disbursing officer at the end of the audit period as disclosed in Finding No. 1 contained in this report.

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

PORT MATILDA FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage

Condition: As disclosed in the Status of Prior Findings section of this report, although the VFRA increased their bond coverage to an amount greater than the balance of the relief association's cash assets during the audit period, the relief association again 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 \$200,000; however, as of December 31, 2015, the relief association's cash assets totaled \$212,270.

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. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. 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.

PORT MATILDA FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendations noted in this audit report.

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that were not for the direct benefit of volunteer firefighters participating in the fire service; and therefore, are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
04/17/13	137	Equipment vendor	\$ 10,918
04/17/13	140	Relief benefits provider	661
05/17/13	142	Relief benefits provider	35
10/16/13	151	Relief benefits provider	55
06/18/14	174	Relief benefits provider	55
06/30/14	175	Maintenance vendor	5,516
05/20/15	187	Maintenance vendor	495
06/17/15	191	Relief benefits provider	55
10/21/15	194	Maintenance vendor	495
03/20/16	202	Maintenance vendor	495
Total			<u>\$ 18,780</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1 and 11) 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.
- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

PORT MATILDA FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Continued

Costs associated with the purchase of equipment, maintenance on equipment, and relief benefits not for the benefit of volunteer firefighters participating in the fire service do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: The relief association was unaware that an agreement in which the Port Matilda Emergency Medical Services (PMEMS) completely separated from the Port Matilda Fire Company, Inc. thus creating two separate and distinct legal entities, was in existence effective August 9, 1999, and included a statement indicating that PMEMS is not affiliated with the Port Matilda Fire Company, Inc. As such, relief association officials were unaware that the aforementioned expenditures paid on behalf of PMEMS and its members 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. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association be reimbursed \$18,780 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 indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

PORT MATILDA FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Relief Association Bylaws

Condition: The relief association's governing constitution and existing bylaws contain conflicting provisions and these provisions appear to be inconsistent with Act 118.

Article I of the relief association's constitution states:

The association shall be named as the Port Matilda's Firemen's Relief Association (PMFRA). It has been established for the purpose of providing volunteer firefighters and or EMS personnel of Port Matilda Borough with protection from misfortune as a result of their participation in the fire and or emergency medical service.

Section 1 of Article 1 of the relief association's bylaws states:

The association shall be named as the Port Matilda's Firemen's Relief Association (PMFRA). It has been established for the purpose of providing volunteer firefighters of Port Matilda Borough with protection from misfortune as a result of their participation in the fire service.

Additionally, Section 2 of Article 1 of the relief association's bylaws states:

Persons eligible to membership in said association shall be members in good standing of the Port Matilda Fire Co., Inc. and or Port Matilda Ambulance Association. They shall have all voting rights concerning the normal business and election of officers of the association.

As disclosed in Finding No. 2 above, in an agreement dated August 9, 1999, the PMEMS became a separate and distinct legal entity from the Port Matilda Fire Company, Inc. and PMEMS was no longer affiliated with the fire company as of such date; however, the constitution and the relief association bylaws were not updated to reflect this agreement.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(1, 2, and 3) states, that the relief association's bylaws shall:

- (1) Specify the requirements for securing membership, voting rights of different classes of members, if there be different classes, and conditions under which membership may be terminated.
- (2) Be faithfully preserved, along with amendments thereto and the effective date of the amendments, in permanent form.
- (3) Contain such other provisions as may, to the membership, seem appropriate or necessary to the orderly conduct of affairs of the association.

PORT MATILDA FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, the relief association should ensure consistency among the varying relief association governing documents.

Cause: Relief association officials indicated that they were unaware of the inconsistency among the varying governing documents and that the EMS was still referenced in the current bylaws. Relief association officials were also unaware of the mandatory bylaw provisions prescribed by Act 118.

Effect: As a result of the inconsistency among the varying governing documents, the relief association may have conducted its affairs inconsistently and/or without proper authorization. As disclosed in Finding No. 2, since PMEMS is a separate, legal entity not affiliated with the fire company, the relief association expended funds during the current audit period that were not for the direct benefit of volunteer firefighters participating in the fire service and were deemed unauthorized in accordance with Act 118.

Recommendation: We recommend that the relief association officials review and update the constitution and bylaws governing their organization so that the constitution and bylaws meet the requirements set forth in Act 118, properly authorize the operating procedures of the relief association, and remove the EMS from the bylaws in accordance with the separation agreement. 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.

PORT MATILDA FIREMEN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

PORT MATILDA FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2015

Cash	<u>\$ 212,270</u>
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PORT MATILDA 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	\$ 13,135
Relief benefits	55
Total Benefit Services	<u>\$ 13,190</u>

Fire Services:

Equipment purchased	\$ 22,072
Equipment maintenance	11,709
Training expenses	5,345
Fire prevention materials	2,550
Total Fire Services	<u>\$ 41,676</u>

Administrative Services:

Other administrative expenses	\$ 2,396
Bond premiums	750
Total Administrative Services	<u>\$ 3,146</u>

Other Expenditures:

Unauthorized expenditures	<u>\$ 18,780</u>
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Total Expenditures	<u><u>\$ 76,792</u></u>
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PORT MATILDA FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Port Matilda Firemen's Relief Association Governing Body:

Mr. Dean Rudy, Sr.
President

Mr. Toner Bower
Vice President

Ms. Virginia Johnston
Secretary

Ms. Sandra L. Meek
Treasurer

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

Ms. Susan Steele
Secretary
Halfmoon Township

Ms. Karen Dillon-Ballock
Secretary
Huston Township

Ms. Carolyn Kibe
Secretary
Port Matilda Borough

Ms. Natalie Moore
Secretary
Taylor Township

Ms. Jadine E. Reese
Secretary
Worth Township

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