

COMPLIANCE AUDIT

West Elizabeth Volunteer Fire Relief Association

Allegheny 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



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Thomas Wolfgang, President
West Elizabeth Volunteer Fire
Relief Association
Allegheny County

We have conducted a compliance audit of the West Elizabeth Volunteer Fire 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 objective of the audit was 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 objective 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, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures, except as noted in the finding listed below and discussed later in this report.

Finding – Unsecured Loan

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.

September 27, 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 municipality:

| <u>Municipality</u> | <u>County</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|------------------------|---------------|-------------|-------------|-------------|
| West Elizabeth Borough | Allegheny | \$2,435 | \$2,325 | \$2,385 |

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:

West Elizabeth Volunteer Fire Company

WEST ELIZABETH VOLUNTEER FIRE RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Unsecured Loan

Condition: On October 21, 2013, the relief association made an unsecured loan to the West Elizabeth Volunteer Fire Company in the amount of \$10,000.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) requires that loans be:

. . . (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 that the loan to the fire company must be secured to ensure compliance with Act 118 provisions.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk.

Recommendation: We recommend that the relief association officials and the fire company amend the written loan agreement to provide adequate security for the relief association's investment as required by Act 118 at 35 Pa.C.S. § 7416(c)(3). If such action is not taken, we recommend that the loan 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.

WEST ELIZABETH VOLUNTEER FIRE RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2015

| | |
|------|------------------|
| Cash | <u>\$ 14,924</u> |
|------|------------------|

WEST ELIZABETH VOLUNTEER FIRE RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:

| | |
|--------------------|--------|
| Insurance premiums | \$ 250 |
|--------------------|--------|

Fire Services:

| | |
|---------------------|--------|
| Equipment purchased | \$ 107 |
|---------------------|--------|

| | |
|-------------------|-------|
| Training expenses | 2,009 |
|-------------------|-------|

| | |
|---------------------|-----------------|
| Total Fire Services | <u>\$ 2,116</u> |
|---------------------|-----------------|

Administrative Services:

| | |
|---------------|---------------|
| Bond premiums | <u>\$ 750</u> |
|---------------|---------------|

| | |
|-----------------------------|------------------|
| Total Investments Purchased | <u>\$ 10,000</u> |
|-----------------------------|------------------|

| | |
|--------------------|-------------------------|
| Total Expenditures | <u><u>\$ 13,116</u></u> |
|--------------------|-------------------------|

WEST ELIZABETH VOLUNTEER FIRE RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

West Elizabeth Volunteer Fire Relief Association Governing Body:

Mr. Thomas Wolfgang
President

Mr. Robert N. Welty
Treasurer

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

Ms. Robin Schmidt
Secretary
West Elizabeth 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.