

COMPLIANCE AUDIT

The Relief Association of the Armagh and East Wheatfield Township Volunteer Fire Company Indiana County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

April 2020



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Nick Brillhart, President
The Relief Association of the Armagh and
East Wheatfield Township
Volunteer Fire Company
Indiana County

We have conducted a compliance audit of The Relief Association of the Armagh and East Wheatfield Township Volunteer Fire Company (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, 2017 to December 31, 2018.

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 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 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, 2017 to December 31, 2018:

- The relief association took appropriate corrective action to address the finding contained in our prior audit 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, comply 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, collectively as a whole. 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 – Unauthorized Expenditures

Finding No. 2 – Erroneous Deposits Of Funds

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.

March 24, 2020



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	3
Findings and Recommendations:	
Finding No. 1 – Unauthorized Expenditures.....	4
Finding No. 2 – Erroneous Deposits Of Funds.....	6
Potential Withhold of State Aid.....	8
Supplementary Financial Information.....	9
Report Distribution List.....	11

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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>
Armagh Borough	Indiana	\$ 475	\$ 433
East Wheatfield Township	Indiana	\$10,940	\$9,929

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:

Armagh And East Wheatfield Township Volunteer Fire Company

THE RELIEF ASSOCIATION OF THE ARMAGH AND EAST WHEATFIELD TOWNSHIP
VOLUNTEER FIRE COMPANY
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.

THE RELIEF ASSOCIATION OF THE ARMAGH AND EAST WHEATFIELD TOWNSHIP
VOLUNTEER FIRE COMPANY
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:

Date	Check No.	Description	Amount
06/09/17	279	Fire company portion - commercial package policy	\$ 623
08/21/17	280	Fire company portion - commercial package policy	623
08/28/17	281	Fire company portion - commercial package policy	623
10/19/17	282	Fire company portion - commercial package policy	623
02/18/18	284	Inspection/repairs for fire company vehicle	112
03/27/18	287	Repairs to fire company plow	504
06/12/18	290	Fire company portion - commercial package policy	636
06/28/18	291	Fire company portion - commercial package policy	636
08/27/18	292	Fire company portion - commercial package policy	636
12/23/18	293	Fire company portion - commercial package policy	636
Total			<u><u>\$ 5,652</u></u>

Criteria: Section 7416(f) of Act 118 states:

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

- (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.

THE RELIEF ASSOCIATION OF THE ARMAGH AND EAST WHEATFIELD TOWNSHIP
VOLUNTEER FIRE COMPANY
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.

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

- (12) To secure insurance against the legal liability of volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or performing their duties as special fire police.

Costs associated with the fire company's portion of commercial package insurance policies and services/repairs to fire company equipment 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. 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 \$5,652 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of Act 118 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.

THE RELIEF ASSOCIATION OF THE ARMAGH AND EAST WHEATFIELD TOWNSHIP
VOLUNTEER FIRE COMPANY
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: 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.

Finding No. 2 – Erroneous Deposits Of Funds

Condition: As cited as a verbal observation in our prior audit, the relief association made erroneous deposits of funds totaling \$63,379 into the relief association’s account that were designated for the affiliated fire company. On April 29, 2017, the relief association reimbursed \$63,379 to the affiliated fire company.

During the current audit period, the relief association made 12 additional erroneous deposits of funds totaling \$47,904 into the relief association’s account that were designated for the affiliated fire company. On February 11, 2017, the relief association repaid \$4,540 to the affiliated fire company; however, the relief association still owes the affiliated fire company \$43,364.

Criteria: Relief association funds should not be commingled with any other organization’s funds in order to maintain effective control of its assets. In addition, adequate accounting and internal controls should include procedures to prevent erroneous deposits.

Cause: The relief association failed to establish adequate internal control procedures that would prevent erroneous deposits and the commingling of funds.

Effect: As a result of the erroneous deposits of funds, the relief association still owes the affiliated fire company \$43,364. In addition, the practice of depositing fire company’s funds into the relief association’s account can lead to confusion in determining the total amount of relief association’s monetary assets.

Recommendation: We recommend that the relief association immediately reimburse \$43,364 to the affiliated fire company for the erroneous deposits. In addition, the relief association must discontinue the current practice of depositing the affiliated fire company funds into the relief association account to ensure that future state aid allocations will not be withheld. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

THE RELIEF ASSOCIATION OF THE ARMAGH AND EAST WHEATFIELD TOWNSHIP
VOLUNTEER FIRE COMPANY
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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: Compliance will be subject to verification through our next audit.

THE RELIEF ASSOCIATION OF THE ARMAGH AND EAST WHEATFIELD TOWNSHIP
VOLUNTEER FIRE COMPANY
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 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 may 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.

THE RELIEF ASSOCIATION OF THE ARMAGH AND EAST WHEATFIELD TOWNSHIP
VOLUNTEER FIRE COMPANY
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2018

Cash	\$ 31,471
Fair Value of Investments	<u>54,228</u>
Total Cash and Investments	<u><u>\$ 85,699</u></u>

THE RELIEF ASSOCIATION OF THE ARMAGH AND EAST WHEATFIELD TOWNSHIP
VOLUNTEER FIRE COMPANY
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:

Insurance premiums	\$ 33,179
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Fire Services:

Equipment purchased	\$ 2,078
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Equipment maintenance	616
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Total Fire Services	\$ 2,694
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Administrative Services:

Other administrative expense	\$ 20
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Bond premiums	500
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Total Administrative Services	\$ 520
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Other Expenditures:

Miscellaneous expenditures – See Finding No. 2*	\$ 67,919
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Total Expenditures	\$ 104,312
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*The miscellaneous expenditures represent the reimbursements made to the affiliated fire company for the prior audit erroneous deposits totaling \$63,379 and the current audit erroneous deposits of \$4,540 from the relief association.

THE RELIEF ASSOCIATION OF THE ARMAGH AND EAST WHEATFIELD TOWNSHIP
VOLUNTEER FIRE COMPANY
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Relief Association of the Armagh and East Wheatfield Township Volunteer Fire Company
Governing Body:

Mr. Nick Brillhart
President

Mr. Brad Malenich
Vice President

Mr. Timothy Benamati
Secretary

Mr. Kevin Means
Treasurer

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

Mr. Douglas Rudnik
Secretary
Armagh Borough

Ms. Colleen F. Rudnik
Secretary
East Wheatfield 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.