

COMPLIANCE AUDIT

Blue Rock Fire Rescue Relief Association Lancaster County, Pennsylvania For the Period January 1, 2019 to December 31, 2021

October 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. David A. Wiker, President
Blue Rock Fire Rescue Relief Association
Lancaster County

We have conducted a compliance audit of the Blue Rock Fire Rescue Relief Association (relief association) for the period January 1, 2019 to December 31, 2021. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

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, nor was it required to be, 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.

We were not able to obtain an independent confirmation of the cash balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2021, the relief association had a cash balance of \$371,675, we were not able to verify this cash balance.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2019 to December 31, 2021, 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 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

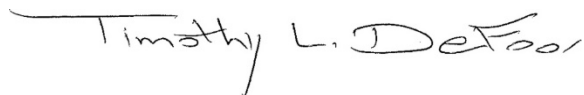
Finding No. 2 – Unauthorized Expenditure

Finding No. 3 – Inadequate Minutes Of Meetings

We have also issued the observation below as detailed in the Observation section of this report.

Observation – FDIC Coverage Limits Exceeded

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.



Timothy L. DeFoor
Auditor General
August 16, 2022

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code¹, and the Volunteer Firefighters' Relief Association Act² ("VFRA Act"), 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 Law³ (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.

The VFRA Act 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, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, 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.

The relief association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Manor Township	Lancaster	\$125,019	\$125,596	\$112,431
Millersville Borough	Lancaster	\$ 36,990	\$ 37,496	\$ 33,370

¹ 72 P.S. § 403 (as last amended by Act 44 of 2017).

² 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

³ 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

BACKGROUND – (Continued)

Based on the relief association’s records, its total cash as of December 31, 2021 was \$371,675, as illustrated below:

Cash	<u>\$ 371,675</u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2019 to December 31, 2021 were \$481,994, as noted below. The accuracy of these expenditures was evaluated as part of the Department’s audit to conclude on the relief association’s compliance 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.⁴ **The scope of the Department’s audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Benefit Services:

Insurance premiums	<u>\$ 146,853</u>
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Fire Services:

Equipment purchased	\$ 235,549
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Equipment maintenance	5,242
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Training expenses	<u>41,888</u>
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Total Fire Services	<u>\$ 282,679</u>
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Administrative Services:

Bond premiums	\$ 1,404
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Other administrative expenses*	<u>50,708</u>
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Total Administrative Services	<u>\$ 52,112</u>
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Other Expenditures:

Unauthorized expenditure	<u>\$ 350</u>
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Total Expenditures	<u><u>\$ 481,994</u></u>
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* A majority of the other administrative expenses represent \$45,859 expended on internet access charges and data charges and \$4,840 on annual tax preparation expenses.

⁴ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

BACKGROUND – (Continued)

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:

Blue Rock Fire Rescue

BLUE ROCK FIRE RESCUE RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Condition: During calendar years 2020 and 2021, the relief association paid a total of \$60,375 for turnout gear and hose equipment. The affiliated fire company obtained a State Fire Commissioners grant for \$59,842 for the same turnout gear and hose equipment. The relief association received and deposited \$59,842 in grant monies from the affiliated fire company for the turnout gear and hose equipment on December 18, 2020. The relief association has properly recorded the equipment purchased on the relief association’s equipment roster, thereby indicating the relief association’s ownership of equipment; however, there was no formal written agreement provided to specify the relief association’s percentage of ownership.

Criteria: Section 7418(a) of the VFRA Act 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.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the equipment purchased by the relief association by executing a formal written agreement that enumerates the relief association’s proportional share of the cost of the equipment. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the equipment, in the event the equipment is ever sold.

Cause: The relief association officials indicated that they were unaware of the necessity of an agreement and therefore, did not execute one.

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased equipment places the relief association’s ownership interest at greater risk.

Recommendation: We recommend that the relief association officials execute a formal written agreement with the affiliated fire company that enumerates the relief association’s proportional ownership interest in the equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the equipment is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$533. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

BLUE ROCK FIRE RESCUE 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, as a result of our audit, the relief association provided a formal written agreement with the affiliated fire company in which the fire company relinquished ownership of the equipment to the relief association on August 4, 2022.

Auditor’s Conclusion: We reviewed the supporting documentation verifying the propriety of the agreement. Compliance for executing formal written agreements during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Unauthorized Expenditure

Condition: The relief association expended \$350 for training that was not completed by a relief association member. Consequently, incomplete training is not authorized by the VFRA Act.

Criteria: Section 7416(f) of the VFRA Act states:

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

- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters’ training schools.

Costs associated with training courses not completed by members do not qualify as an authorized volunteer firefighters’ relief association expenditure; consequently, this disbursement is not authorized under the VFRA Act.

Cause: Relief association officials indicated that they believe this expense was reimbursed; however, it may have been deposited into the affiliated fire company’s account in error.

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

Recommendation: We recommend that the relief association be reimbursed \$350 for the unauthorized expenditure and that relief association officials become familiar with Section 7416(f) of the VFRA Act 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.

BLUE ROCK FIRE RESCUE RELIEF ASSOCIATION
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.

Finding No. 3 – Inadequate Minutes Of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings as required by the VFRA Act and the relief association’s bylaws. Specifically, the relief association’s minutes did not address all the financial-related transactions that occurred during the audit period. In addition, only 23 out of the 36 monthly meetings were held during the audit period and a membership attendance record was not kept for each meeting to ensure the quorum requirements were met.

Criteria: Section 7415(a) of the VFRA Act 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.

The relief association’s bylaws at Article II, Section 1 states:

Regular meetings of this association shall be held monthly immediately following the regular meeting of the Blue Rock Fire Rescue. Twenty (20) members shall constitute a quorum.

In addition, the relief association’s bylaws at Article III, Section 3 states, in part:

The secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note authorization by the membership of all Association financial transactions and all other pertinent business discussed at meetings.

Cause: Relief association officials indicated that this occurred due to the relief association going to meetings every other month instead of monthly, but they did not provide a reason why the minutes did not address all the financial-related transactions that occurred and did not include attendance records.

BLUE ROCK FIRE RESCUE RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: Without holding regular meetings and maintaining detailed minutes of meetings and documentation that quorum requirements were met, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend that the relief association officials hold all required meetings and maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. We also recommend that the relief association officials ensure that membership attendance records are maintained to make certain quorum requirements are met. 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.

BLUE ROCK FIRE RESCUE RELIEF ASSOCIATION
OBSERVATION

Observation – FDIC Coverage Limits Exceeded

As disclosed in a verbal observation in the two previous audits, the relief association again failed to ensure that all cash deposits were below the FDIC coverage limits per account ownership in one institution. As of December 31, 2021, the relief association's ending cash balance with the financial institution amounted to \$371,675.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United State government that protects the funds depositors place in banks and savings associations. FDIC insurance is backed by the full faith and credit of the United States government.

FDIC insurance covers all deposit accounts, including:

- Checking accounts
- Savings accounts
- Money market accounts
- Certificates of deposit

FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual funds, life insurance policies, annuities, and securities. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.

Section 7413 of the VFRA Act states that the purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure as far as circumstances will reasonably permit, that the funds shall be available for the protection of the volunteer firefighters' and their heirs.

Furthermore, prudent business practice dictates that in addition to performing monthly bank reconciliations, the relief association should ensure the relief association's cash balance does not exceed FDIC limits set by banking regulations. Lack of effective monitoring of relief association cash and investment assets places the relief association funds at greater risk for loss.

The relief association should monitor all cash and investment assets that are eligible for FDIC insurance and ensure the balance of those assets per banking institution does not exceed FDIC coverage limits.

BLUE ROCK FIRE RESCUE RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Charles J. McGarvey, Sr.
State Fire Commissioner

Blue Rock Fire Rescue Relief Association Governing Body:

Mr. David A. Wiker
President

Mr. Dan Bezek
Vice President

Mr. Jim Leed
Secretary

Mr. Richard L. Schock
Treasurer

Mr. Ted Alspach
Assistant Secretary

Mr. Carl Miller
Assistant Treasurer

BLUE ROCK FIRE RESCUE RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Mr. J. Ryan Strohecker
Secretary
Manor Township

Mr. John Rochat
Secretary
Millersville 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.