

COMPLIANCE AUDIT

East Rochester Volunteer Firefighters' Relief Association Beaver County, Pennsylvania For the Period January 1, 2019, to December 31, 2021

May 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. James Simon, President
East Rochester Volunteer Firefighters'
Relief Association
Beaver County

We have conducted a compliance audit of the East Rochester Volunteer Firefighters' 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 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 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, 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 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, 2019, to December 31, 2021:

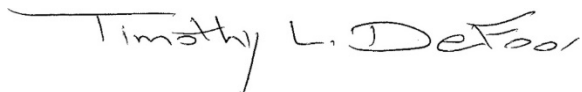
- The relief association did not take appropriate corrective action to address the findings contained in our prior audit report, as detailed below, and discussed in the Status of Prior Findings section of this report.
- The relief association, in all significant respects, complied with applicable state 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 findings listed below and discussed later in this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Comply With Terms Of Loan Agreement

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Surety (Fidelity) Bond Coverage

Finding No. 3 – Failure To Adhere To Relief Association Bylaws

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
March 15, 2023

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	4
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Comply With Terms Of Loan Agreement	5
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Surety (Fidelity) Bond Coverage.....	6
Finding No. 3 – Failure To Adhere To Relief Association Bylaws	7
Report Distribution List	9

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.

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)

During the current audit period, the relief association did not receive an allocation of state aid from East Rochester Borough. Municipalities have sole discretion to distribute their annual allocation of state aid received to any relief association providing fire service to the municipality.

Based on the relief association’s records, its total cash and investments as of December 31, 2021, were \$19,494, as illustrated below:

Cash	\$ 8,554
Book Value of Other Investments	<u>10,940</u>
Total Cash and Investments	<u><u>\$ 19,494</u></u>

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2021, were \$239, 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:

Administrative Services:	
Bond premiums	\$ 200
Other administrative expenses	<u>39</u>
Total Administrative Services	<u>\$ 239</u>
 Total Expenditures	 <u><u>\$ 239</u></u>

The volunteer firefighters’ relief association and the former affiliated fire service organization are separate, legal entities. The relief association is no longer affiliated with the following fire service organization:

East Rochester Volunteer Fire Department

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

BACKGROUND – (Continued)

During the prior audit period, on August 1, 2018, the Borough of East Rochester enacted Ordinance No. 334 to adopt an intergovernmental agreement of cooperation providing fire service between the Borough of East Rochester and Rochester Township in Beaver County. The agreement stipulated it was effective until December 31, 2022, and took effect upon approval of both parties. East Rochester agreed to recognize the Rochester Fire Department as the fire protection services provider for the Borough of East Rochester. As part of the agreement, Rochester Township and East Rochester agreed that Rochester Township would deliver fire suppression services, provided by volunteer fire service personnel, within the jurisdictional boundaries of the Borough of East Rochester during the term of the agreement. The agreement also noted that current East Rochester Fire Department personnel may join the Rochester Fire Department by making application to the Rochester Fire Department secretary; however, the agreement failed to reference the relief association and/or its members.

During the conduct of our prior audit and current audit of the relief association, relief association officials indicated that the relief association is considering dissolution of the relief association as a result of financial and manpower constraints. Prudent business practice dictates that relief associations contemplating dissolution should consider retaining legal counsel to provide assurance that the dissolution complies with applicable laws and regulations governing non-profit charitable organizations and that all benefits owed to active and former association members are maintained and protected. In addition, if this is the case, the remaining relief association members should conduct a meeting to approve the dissolution of the association and the disposition of its assets. In most circumstances, all relief association-owned equipment and monetary assets of the dissolving relief association are to be transferred to the new relief association affiliated with the volunteer fire company that is reestablished as a result of the merger.

In addition, relief association officials should contact this department in preparation of a final audit of the relief association and perform the following:

- The relief association should provide full documentation of the monetary assets and equipment being transferred. A complete inventory of all equipment should be performed, and a listing of the equipment transferred should be completed.
- Upon transfer of the equipment, a signed receipt from the relief association receiving the equipment should be obtained to verify items of equipment transferred. Those items of equipment then become assets to the recipient relief association and should be added to that relief association's equipment roster.

The department will verify the receipt of the equipment and monetary assets transferred through an audit of the recipient association. However, as of the date of this report, the relief association has not made a formal commitment to dissolve and/or merge with another relief association.

EAST ROCHESTER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with the following prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure To Comply With Terms Of Loan Agreement
- Failure To Maintain Surety (Fidelity) Bond Coverage

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

EAST ROCHESTER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Comply With Terms Of Loan Agreement

Condition: On March 14, 2016, the relief association made a loan to the East Rochester Volunteer Fire Department in the amount of \$10,000 with payments to begin on May 1, 2016. The relief association did not receive the monthly payments due for five months in 2016, twelve months in 2017, twelve months in 2018, twelve months in 2019, twelve months in 2020 and two months in 2021. This loan is now unsecured due to the former affiliated fire department selling the 1995 International Fire Truck on March 25, 2019, which was listed on the loan document as security on the loan.

A similar condition was noted in our prior audit report.

Criteria: The terms of the loan agreement state that payments of \$180 will be due on a monthly basis, beginning on May 1, 2016.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure loan payments would be collected in accordance with the payment schedule outlined in the loan agreement.

Effect: Due to the relief association not receiving the scheduled loan payments, funds were unavailable for general operating expenses or for investment purposes. In addition, because of the loan no longer being secured, the relief association's loan investment was placed at greater risk of loss.

Recommendation: We recommend that the relief association officials collect \$11,348 representing delinquent payments including interest through February 2023. In addition, relief association officials should ensure it implements internal controls to ensure its investments remain secured. 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$11,348 for the loan on February 28, 2023.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$11,348 was received. Compliance for any loan payments required to be made for any loan investments by the relief association during the next audit period will be subject to verification through our next audit.

EAST ROCHESTER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by the VFRA Act. The relief association's Surety (Fidelity) bond coverage expired on April 1, 2020. As of December 31, 2021, the relief association's cash assets totaled \$8,554.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(c)(4) of the VFRA Act 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: The relief association official did not renew the bond due to the inactivity of the relief association and their plans to dissolve the relief association.

Effect: As a result of the authorized disbursing officer of the relief association not being bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We again recommend that the relief association officials obtain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by the VFRA Act. 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

EAST ROCHESTER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Adhere To Relief Association Bylaws

Condition: The relief association did not adhere to numerous provisions in the association's bylaws. Specifically, the relief association did not abide by bylaw stipulations as noted below:

- The bylaw requirement for monthly meeting to be held during the audit period.
- The bylaw requirement to fill required officer's positions.
- The bylaw requirement to maintain journals and ledgers for the period under review.
- The bylaw requirement to adhere to steps outlined when its affiliated fire company ceases providing fire service to the municipality.

Criteria: The relief association's bylaws stipulate the following:

- Article II, Section 1 – Regular meetings of this association shall be held on the third Thursday of each month immediately following the regular meeting of the East Rochester Volunteer Fire Department. Ten members shall constitute a quorum.
- Article III, Section 1 – The officers of this association shall consist of a president, vice-president, secretary, and treasurer. The officers shall be responsible for the management of association business upon direction received by the membership at association meetings.
- Article V, Section 2 – All expenditures must be made through a relief association account and recorded, in detail, in the association journals and ledgers. Supporting documentation such as invoices, cancelled checks, etc., shall be maintained to verify all disbursements.
- Article IX – In the event of the dissolution of the relief association resulting from a referendum vote to replace the association's affiliated volunteer fire company with a full-paid fire department, the dissolution and distribution of assets will be governed by the procedures set forth in The Volunteer Firefighters' Relief Association Act. In the event of any other dissolution of the relief association, the members will take the necessary steps to (1) provide all existing benefits prescribed in the association bylaws, (2) pay all debts and expenses of the association, and (3) convey the association's remaining assets and property to the remaining relief associations affiliated with the volunteer fire company providing fire service to the municipality. In all circumstances, the distribution will be done in accordance with the applicable federal and state laws and regulations governing non-profit charitable institutions.

EAST ROCHESTER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, prudent business practice dictates that the relief association should adhere to all provisions stipulated in the relief association's bylaws to ensure that the relief association conducts its affairs with proper authorization.

Cause: Relief officials indicated that because they planned on dissolution of the relief association but had not yet made final steps to move forward, the relief association therefore did not abide by the bylaws.

Effect: As a result of the relief association not following the mandatory provisions stipulated in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials review the bylaws governing their organization and establish guidelines and procedures to meet the provisions contained in the bylaws in order to assure that the association conducts its affairs with proper authorization. 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.

EAST ROCHESTER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

East Rochester Volunteer Firefighters' Relief Association Governing Body:

Mr. James Simon
President

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

Ms. Janice Dunn
Secretary
East Rochester 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.