

COMPLIANCE AUDIT

East Rochester Volunteer Firefighters' Relief Association Beaver County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

May 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
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) 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, 2016 to December 31, 2018.

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 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 objective. 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, 2016 to December 31, 2018, 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 Comply With Terms Of Loan Agreement

Finding No. 2 – Failure To Maintain Surety (Fidelity) Bond Coverage

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.

May 2, 2019



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. 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
East Rochester Borough	Beaver	\$2,681	\$2,464	*

* During the current audit period, the relief association did not receive an allocation of state aid from East Rochester Borough in 2018. Municipalities have sole discretion to distribute their annual allocation of state aid received to any relief association providing fire service to the municipality.

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:

East Rochester Volunteer Fire Department

During the 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. This agreement is 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 audit of the relief association, relief association officials indicated that the relief association is considering dissolution and/or a merger with another volunteer firefighter’s 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 or a relief association providing fire service to the municipality.

BACKGROUND – (Continued)

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
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Comply With Terms Of Loan Agreement

Condition: On March 4, 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; however the fire company only made one payment of \$800 to the relief association on July 22, 2016.

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 because the fire company is undergoing financial difficulties and unable to make the payments.

Effect: Due to the relief association not receiving the scheduled loan payments, funds were unavailable for general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association officials collect \$4,960 representing delinquent payments through December 31, 2018. We further recommend that relief association officials ensure future payments are received in accordance with the loan agreement. 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 that the fire company sold one of their pumpers and plans to use the proceeds of the sale to pay off the loan.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

Finding No. 2 – 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 Act 118. The relief association's Surety (Fidelity) bond coverage expired on September 11, 2018. As of December 31, 2018, the relief association's cash assets totaled \$8,772.

EAST ROCHESTER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Section 7415(c)(4) of Act 118 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: Relief association officials indicated that they were aware of the Act 118 provision requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer but failed to comply.

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 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 Act 118. 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
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2018

Cash	\$ 8,772
Book Value of Other Investments	<u>9,300</u>
Total Cash and Investments	<u>\$ 18,072</u>

EAST ROCHESTER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2018

Expenditures:

Fire Services:

Equipment maintenance	<u>\$ 367</u>
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Administrative Services:

Other administrative expenses	<u>\$ 79</u>
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Investments Purchased:

Investments Purchased	<u>\$ 10,000</u>
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Total Expenditures	<u><u>\$ 10,446</u></u>
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EAST ROCHESTER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

East Rochester Volunteer Firefighters' Relief Association Governing Body:

Mr. James Simon
President

Mr. Dylan Sodergren
Treasurer

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

Ms. Janice Mohrbacher
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.