

COMPLIANCE AUDIT

Firemen's Relief Association of the Excelsior Hose Company #2

Luzerne County, Pennsylvania

For the Period

January 1, 2017 to December 31, 2018

September 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Michael Klink, President
Firemen's Relief Association of the Excelsior
Hose Company #2
Luzerne County

We have conducted a compliance audit of the Firemen's Relief Association of the Excelsior Hose Company #2 (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 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, 2017 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 finding listed below and discussed later in this report.

Finding – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

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 19, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a stylized, flowing script.

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>2017</u>	<u>2018</u>
Duryea Borough	Luzerne	\$12,171	\$11,068

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:

Excelsior Hose Company No. 2

FIREMEN'S RELIEF ASSOCIATION OF THE EXCELSIOR HOSE COMPANY #2
FINDING AND RECOMMENDATION

Finding – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Condition: On May 23, 2018, the relief association expended \$8,000 for the purpose of jointly purchasing a 2018 Ferrara Aerial Ladder Truck with the affiliated fire company. However, the relief association did not adequately secure its ownership interest in this jointly purchased vehicle.

Criteria: Section 7418(a) of Act 118 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 jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold.

Cause: Relief association officials failed to implement internal controls to ensure that it adequately secured its proportional ownership interest in the jointly purchased vehicle.

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicle 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 fire company that enumerates the relief association's proportional ownership interest in the jointly purchased vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$8,000. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

FIREMEN'S RELIEF ASSOCIATION OF THE EXCELSIOR HOSE COMPANY #2
FINDING AND RECOMMENDATION

Finding – (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, relief association officials provided an agreement between the relief association and the affiliated fire company that provides sixty percent ownership rights to the relief association on September 12, 2019.

Auditor's Conclusion: We reviewed documentation verifying that an ownership agreement between the relief association and the affiliated fire company was received; however, the agreement is required to be signed by two officers from the relief association and two officers from the fire company (four separate individuals). Full compliance with the ownership agreement and any future joint purchases made during the next audit period will be subject to verification through our next audit.

FIREMEN'S RELIEF ASSOCIATION OF THE EXCELSIOR HOSE COMPANY #2
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2018

Cash	\$ 10,036
Fair Value of Investments	<u>24,377</u>
Total Cash and Investments	<u><u>\$ 34,413</u></u>

FIREMEN'S RELIEF ASSOCIATION OF THE EXCELSIOR HOSE COMPANY #2
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:

Insurance premiums	\$ 7,312
Death benefits	9,000
Total Benefit Services	<u>\$ 16,312</u>

Fire Services:

Equipment purchased	\$ 38,458
Equipment maintenance	3,901
Training expenses	450
Fire prevention materials	189
Total Fire Services	<u>\$ 42,998</u>

Administrative Services:

Officer compensation	\$ 180
Other administrative expenses	479
Bond premiums	250
Total Administrative Services	<u>\$ 909</u>

Other Expenditures:

Payments on lease-financing	\$ 7,319
Unauthorized Expenditure *	250
Total Other Expenditures	<u>\$ 7,569</u>

Total Expenditures	<u><u>\$ 67,788</u></u>
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* During 2017, the relief association made an insignificant disbursement in the amount of \$250 which was not authorized by Act 118. We disclosed this issue to relief association officials on June 28, 2019.

FIREMEN’S RELIEF ASSOCIATION OF THE EXCELSIOR HOSE COMPANY #2
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Firemen’s Relief Association of the Excelsior Hose Company #2 Governing Body:

Mr. Michael Klink
President

Mr. Clarence Van Ness
Treasurer

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

Ms. Carolyn Santee
Manager/Chief Administrator
Duryea 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.