

COMPLIANCE AUDIT

The Firemen's Relief Association of the Borough of Hanover, York County, Pennsylvania

For the Period
January 1, 2017 to December 31, 2019

December 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Jerry Misner, Jr., President
The Firemen's Relief Association of the
Borough of Hanover, York County,
Pennsylvania

We have conducted a compliance audit of The Firemen's Relief Association of the Borough of Hanover, York County, Pennsylvania (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, 2019.

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, 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, 2017 to December 31, 2019:

- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding 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 Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Failure To Complete Merger Procedures

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.

December 3, 2020



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.

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

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Hanover Borough	York	\$16,308	\$16,482	\$49,768

BACKGROUND – (Continued)

Based on the relief association’s records, its total cash and investments as of December 31, 2019 were \$328,686, as illustrated below:

Cash	\$ 54,863
Fair Value of Investments	<u>273,823</u>
Total Cash and Investments	<u>\$ 328,686</u>

Based on the relief association’s records, its total expenditures for the period January 1, 2017 to December 31, 2019 were \$106,896, 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.¹ **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	\$ 22,842
Death benefits	6,500
Relief benefits	<u>184</u>
Total Benefit Services	<u>\$ 29,526</u>
Fire Services:	
Equipment purchased	\$ 24,020
Equipment maintenance	24,419
Training expenses	<u>11,139</u>
Total Fire Services	<u>\$ 59,578</u>
Administrative Services:	
Officer compensation	\$ 9,450
Other administrative expenses*	6,852
Bond premiums	<u>1,490</u>
Total Administrative Services	<u>\$ 17,792</u>
Total Expenditures	<u>\$ 106,896</u>

¹ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

BACKGROUND – (Continued)

* Portions of the other administrative expenses represent taxes paid to the IRS in the amount of \$1,446, a computer purchased in the amount of \$875 and accounting services, finalizing records, and preparation of IRS Form 990 in the amount of \$3,375.

The volunteer firefighters' relief association and the affiliated fire service organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Clearview Fire Company #3

Eagle Fire Company #2

Furthermore, on January 9, 2020, a reorganization meeting was held to approve the name change of the relief association to Hanover Area Volunteer Fire and Rescue Relief Association to begin the process of changing the relief association's name on all financial accounts with the financial institution and to reflect the merger between the relief association and Penn Township Firemen's Relief Association. Although the name change and merger have occurred, the relief association failed to complete all merger procedures as further disclosed in Finding No. 2 of this report.

THE FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH OF HANOVER,
YORK COUNTY, PENNSYLVANIA
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain A Complete And Accurate Equipment Roster

We are concerned by the relief association's failure to correct this previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

THE FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH OF HANOVER,
YORK COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain
A Complete And Accurate Equipment Roster**

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit period, this listing was incomplete and did not accurately identify all of the equipment owned by the relief association. The equipment that was recorded did not include the names of suppliers (vendors), complete date of purchase, cost of equipment, serial numbers of equipment, physical location of equipment and verification of annual physical inventory. The relief association purchased \$24,020 of equipment during the current audit period, but the equipment for \$12,720 of those purchases was not properly accounted for on the relief association's equipment roster. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

A similar condition was noted in our prior audit report.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

Cause: The relief officials did not provide a reason for why this occurred despite being notified of this condition during our prior audit.

THE FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH OF HANOVER,
YORK COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The continued failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We again recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. 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.

THE FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH OF HANOVER,
YORK COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Complete Merger Procedures

Condition: The relief association failed to complete all merger procedures necessary to properly complete the merger with Penn Township Firemen's Relief Association to form the Hanover Area Volunteer Fire and Rescue Relief Association of York County. Although the relief association physically changed its name on all financial accounts with the financial institution, relief officials failed to effectively complete the merger by not performing the following:

- Contacting the IRS to change the name associated with the relief association's federal tax identification number to Hanover Area Volunteer Fire and Rescue Relief Association of York County or obtain a new federal identification number, specifically for the newly formed relief association.
- Contacting the Pennsylvania Department of Revenue to either change the name associated with the relief association's PA state sales tax exemption number to Hanover Area Volunteer Fire and Rescue Relief Association or obtain a new state sales tax exemption number, which would first require receiving a federal tax identification number.
- Accepting/recording the equipment that had been transferred to the relief association by the Penn Township Firemen's Relief Association and re-titling a 2008 Kraftwood trailer that remained titled to the Penn Township Firemen's Relief Association into the name of the newly formed relief association.

Criteria: Section 7415(e) of Act 118 states:

A volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

In addition, Section 7415(c) of Act 118 states that the relief association's bylaws shall:

- (10) Contain such other provisions as may, to the membership, seem appropriate or necessary to the orderly conduct of affairs of the association.

Furthermore, all businesses, both profit and nonprofit, are required by the Tax Equity and Fiscal Responsibility Act to obtain a federal tax identification number and provide this number to any financial institution where funds are earning interest. If the correct tax identification number is not provided, the financial institution is required to withhold 31 percent of interest earned and transmit these funds to the Internal Revenue Service, representing federal income taxes.

THE FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH OF HANOVER,
YORK COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials were aware of the importance of the administrative provisions of Act 118 identified above as a result of the decision to merge with another relief association to form a new relief association; however, the relief officials were of the belief the issues noted above had been addressed/satisfied by the consulting firm which they had used to facilitate the merger.

Effect: The relief association's failure to either change the name associated with the relief association's federal tax identification number to Hanover Area Volunteer Fire and Rescue Relief Association of York County or obtain a new federal identification number specifically for the newly formed relief association could result in the relief association being subject to withholding of taxes by the Internal Revenue Service, which could result in the loss of funds otherwise available for general operating expenditures or for investment purposes. Furthermore, as a result of the relief association's failure to update the name associated with the sales tax exemption number or obtain a new sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on its purchases, which ultimately reduces the funds otherwise available for general operating expenditures or for investment purposes. Finally, the failure to accept and record the equipment that had been transferred to the relief association by the Penn Township Firemen's Relief Association and re-title the 2008 Kraftwood trailer into the name of the newly formed relief association resulted in the equipment not being legally owned in the name of the newly formed relief association.

Recommendation: We recommend the relief association perform the following:

- Officially change the name associated with the relief association's federal tax identification number to Hanover Area Volunteer Fire and Rescue Relief Association of York County or obtain a new federal identification number (as instructed by the IRS).
- Officially change the name associated with the relief association's PA state sales tax exemption number or obtain a new state sales tax exemption number (as instructed by the Pennsylvania Department of Revenue).
- Accept and record the equipment which had been transferred by Penn Township Firemen's Relief Association and re-title the 2008 Kraftwood trailer, previously owned by Penn Township Firemen's Relief Association, to the Hanover Area Volunteer Fire and Rescue Relief Association of York County.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

THE FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH OF HANOVER,
YORK COUNTY, PENNSYLVANIA
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 FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH OF HANOVER,
YORK COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Firemen's Relief Association of the Borough of Hanover, York County, Pennsylvania
Governing Body:

Mr. Jerry Misner, Jr.
President

Mr. Fred Ayers
Vice President

Mr. John Bankert
Secretary

Mr. Anthony Funk
Treasurer

Mr. Andy Alwine
Assistant Secretary

Mr. Larry Sherfey
Assistant Treasurer

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

Ms. Dorothy Felix
Secretary
Hanover Borough

THE FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH OF HANOVER,
YORK COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

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.