

COMPLIANCE AUDIT

Heidelberg Volunteer Firemen's Relief
Association of the Borough of Heidelberg,
County of Allegheny,
Commonwealth of 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



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. David Damp, President
Heidelberg Volunteer Firemen's Relief
Association of the Borough of
Heidelberg, County of Allegheny,
Commonwealth of Pennsylvania

We have conducted a compliance audit of the Heidelberg Volunteer Firemen's Relief Association of the Borough of Heidelberg, County of Allegheny, Commonwealth of Pennsylvania (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.

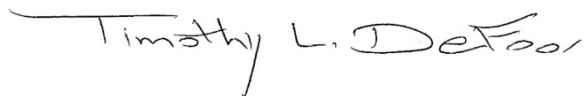
Based on our audit procedures, we conclude that, for the period January 1, 2019, to December 31, 2021, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

- Finding No. 1 – Undocumented Expenditures Due To Potential Misappropriation Of Assets
- Finding No. 2 – Failure To Adequately Monitor And Comply With Surety Bond Claim Filing Requirements
- Finding No. 3 – Inadequate Relief Association Bylaws And Inadequate Signatory Authority For Disbursement Of Funds
- Finding No. 4 – Failure To Maintain Minutes Of Meetings
- Finding No. 5 – Failure To Obtain A Pennsylvania Sales Tax Exemption Number

We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

We are providing a copy of this audit report to the Allegheny County, Pennsylvania District Attorney's Office for their information to review and to determine what further action, if any may be appropriate.

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
February 7, 2023

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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.

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)

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

Municipality	County	2019	2020	2021
Heidelberg Borough	Allegheny	\$6,305	\$6,374	\$5,650

Based on the relief association’s records, its total cash as of December 31, 2021, was \$14,831, as illustrated below:

Cash	\$ 14,831
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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 \$12,244, 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	\$ 1,974
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Fire Services:

Equipment maintenance	\$ 2,011
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Administrative Services:

Bond premiums	\$ 250
Other administrative expenses	5
Total Administrative Services	\$ 255

Other Expenditures:

Undocumented expenditures	\$ 8,004
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Total Expenditures	\$ 12,244
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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:

Heidelberg Volunteer Fire Company

HEIDELBERG VOLUNTEER FIREMEN’S RELIEF ASSOCIATION OF THE BOROUGH
OF HEIDELBERG, COUNTY OF ALLEGHENY, COMMONWEALTH OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures Due To Potential Misappropriation Of Assets

Condition: During the audit period, it appears that the former 2019 relief association Treasurer withdrew and misappropriated \$8,004 from the relief association account. Based on documents reviewed by our auditors, the former 2019 Treasurer wrote seven relief association checks made payable to himself that were subsequently cashed. However, it appears that the checks were written without proper authorization or knowledge of the relief association membership.

Date	Check No.	Payee Description	Amount
05/03/2019	3014	Reimbursement (to 2019 prior Treasurer)	\$ 1,323
10/04/2019	3015	Reimbursement (to 2019 prior Treasurer)	2,348
11/14/2019	3016	Reimbursement (to 2019 prior Treasurer)	1,854
11/18/2019	3017	Reimbursement (to 2019 prior Treasurer)	960
11/24/2019	3018	Reimbursement (to 2019 prior Treasurer)	846
12/02/2019	3019	Reimbursement (to 2019 prior Treasurer)	465
12/08/2019	3020	Reimbursement (to 2019 prior Treasurer)	208
Total			<u>\$ 8,004</u>

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 supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to effectively monitor transactions and ensure the propriety of all expenditures made from relief association funds. These deficiencies are further discussed in detail in Finding No. 3 contained in this report. The relief association was unaware of its ineffective internal control system in 2019.

HEIDELBERG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH
OF HEIDELBERG, COUNTY OF ALLEGHENY, COMMONWEALTH OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to obtain appropriate evidence to determine if the expenditures were made in accordance with Section 7416(f) of the VFRA Act. In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We recommend that the relief association seek reimbursement of \$8,004 for the potentially misappropriated assets and that relief association officials establish adequate internal control procedures to prevent any future misuse of funds. 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, on November 3, 2022, the affiliated fire company reimbursed the relief association \$8,004 for the undocumented expenditures due to potential misappropriated assets.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$8,004 was received. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Failure To Adequately Monitor And Comply With Surety Bond Claim Filing Requirements

Condition: The relief association filed a claim February 6, 2020, with their insurance/bond agent for funds identified as misappropriated, but relief officials failed to comply with the bond coverage policy requiring additional information to be submitted within 120 days of the filing date of the claim in order for the claim to be processed. The bond coverage policy requires an action be brought no later than 2 years after discovery, therefore, it appears the last date to enforce a claim against the policy would have been February 6, 2022.

HEIDELBERG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH
OF HEIDELBERG, COUNTY OF ALLEGHENY, COMMONWEALTH OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

In addition, prudent practice requires the relief association to monitor and follow filing requirements of the relief association's bond company to ensure the relief association recoups the funds that it is due.

Cause: According to relief officials, due to the COVID-19 pandemic and instruction by the District Attorney's office to hold off on the claim until the criminal portion of the case was processed, the relief association did not submit additional information within 120 days.

Effect: As a result of the relief association officers not submitting additional information requested by the bond company within 120 days, the claim was closed with no remuneration paid to the relief association by the bond company.

Recommendation: We recommend that in the future the relief association officials ensure they monitor and comply with the Surety Bond (Fidelity) Claim policy including pertinent submission deadlines/requirements. 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.

HEIDELBERG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH
OF HEIDELBERG, COUNTY OF ALLEGHENY, COMMONWEALTH OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Inadequate Relief Association Bylaws And Inadequate Signatory Authority
For The Disbursement Of Funds**

Condition: The existing bylaws of the relief association do not contain or clearly address all of the provisions required by Section 7415(c) of the VFRA Act or considered to be beneficial to the operation of relief association. Specifically, the bylaws do not clearly address the requirements of two designated check signers one of which being a disbursement officer for the disbursement of funds on all negotiable instruments. The relief association bylaws indicate the relief association President is to countersign all checks and that the relief association Treasurer shall not disburse any money except upon an order signed by the relief association President. The bylaws do not specifically designate which position is considered the designated disbursing officer.

In addition, during the current audit engagement, we identified 7 out of 12 checks drawn from the relief association's checking account in 2019 that did not contain the proper signatory authority. The 7 checks contained the signatures of two relief association officers, the 2019 Treasurer and the 2019 Secretary; however, neither of the signatures was that of the relief association President as required by the bylaws.

Criteria: Section 7415(c)(3) of the VFRA Act states, in part:

- (3) Require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.
- (4) . . . 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.
- (6) Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.

HEIDELBERG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH
OF HEIDELBERG, COUNTY OF ALLEGHENY, COMMONWEALTH OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, prudent business practice dictates that the relief association bylaws have adequate internal control procedures in place to ensure the signatures of appropriate relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: The relief association stated this occurred due to the misappropriation of funds in 2019 and the prior Treasurer and Secretary who signed the checks. This deficiency occurred due to inadequate internal controls and inadequate relief association bylaws.

Effect: As a result of the mandatory provisions not being adequately included in the relief association bylaws, the relief association may have conducted its affairs without proper authorization. In addition, when a relief association issues checks without the signature of an authorized disbursing officer/check signer, assets are placed at greater risk since an authorized officer does not have the opportunity to verify the propriety of the expenditures.

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act and properly authorize the operating procedures of the relief association. In addition, the relief association should establish adequate internal control procedures to ensure the signatures of at least two authorized relief association officers, one of whom shall be the Treasurer, are included on all relief association negotiable instruments as defined 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: Compliance will be subject to verification through our next audit.

HEIDELBERG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH
OF HEIDELBERG, COUNTY OF ALLEGHENY, COMMONWEALTH OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure To Maintain Minutes Of Meetings

Condition: The relief association failed to maintain minutes of meetings for the 2019 calendar year and therefore was not able to provide minutes that addressed all the financial transactions that occurred during 2019, as required by the VFRA Act and the relief association's bylaws. (Refer to Finding No.1 of this report for further information).

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 VI, Section 3 states, in part:

It shall be the duty of the Secretary to keep a correct and complete record of the proceedings of all meetings, to keep a correct roll of all members in good standing, to have charge of all communications and correspondence of the association.

Cause: The relief association attempted to obtain the 2019 minutes of meetings from the prior Secretary but according to relief officials they were unsuccessful in obtaining the information.

Effect: Without maintaining detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist. In addition, the lack of meeting minutes may increase the risk of waste, abuse or fraud occurring.

Recommendation: We recommend that the relief association officials maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. 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.

HEIDELBERG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH
OF HEIDELBERG, COUNTY OF ALLEGHENY, COMMONWEALTH OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure To Obtain A Pennsylvania Sales Tax Exemption Number

Condition: As cited as a verbal observation in our prior audits, the relief association failed to obtain a Pennsylvania sales tax exemption number. The relief association is currently using the fire service organization's sales tax exemption number, although the fire service organization and the relief association are separate legal entities.

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

Cause: The relief association officer stated that the application was completed in 2019 but the prior treasurer failed to submit it to the Department of Revenue.

Effect: As a result of the relief association's continued failure to obtain a 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.

Recommendation: We recommend that the relief association officials immediately obtain a state sales tax exemption number from the Department of Revenue and furnish this exemption number to all vendors from whom the relief association purchases equipment. 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.

HEIDELBERG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH
OF HEIDELBERG, COUNTY OF ALLEGHENY, COMMONWEALTH OF
PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable Steven A. Zappala, Jr.
Allegheny County District Attorney

Heidelberg Volunteer Firemen's Relief Association of the Borough of Heidelberg, County of
Allegheny, Commonwealth of Pennsylvania Governing Body:

Mr. David Damp
President

Mr. Noah Wanielista
Vice President

Mr. Doug Willard
Secretary

Mr. Michael J. Wissel
Treasurer

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

Ms. Peggy Chichester
Secretary
Heidelberg Borough

HEIDELBERG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH
OF HEIDELBERG, COUNTY OF ALLEGHENY, COMMONWEALTH OF
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