

# COMPLIANCE AUDIT

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## Joint Hermitage/Patagonia Volunteer Firemen's Relief Association

Mercer County, Pennsylvania  
For the Period  
January 1, 2017 to December 31, 2018

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March 2020



Commonwealth of Pennsylvania  
Department of the Auditor General  
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Keith Scheuermann, President  
Joint Hermitage/Patagonia Volunteer  
Firemen's Relief Association  
Mercer County

We have conducted a compliance audit of the Joint Hermitage/Patagonia Volunteer Firemen's 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, 2017 to December 31, 2018.

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 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 objectives. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain independent confirmations of the investment balance directly from the financial institutions. Therefore, while the relief association provided investment statements that indicated that, as of December 31, 2018, the relief association had an investment balance with a fair value of \$1,696,118, we were not able to verify this investment balance.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2017 to December 31, 2018:

- The relief association took appropriate corrective action to address the finding contained in our prior audit 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 finding listed below and discussed later in this report.

Finding – Failure To Deposit Proceeds From The Sale Of A 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.

March 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.

**BACKGROUND – (Continued)**

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

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>
Hermitage City	Mercer	\$92,614	\$84,540
Lackawannock Township	Mercer	\$ 3,886	\$ 3,546

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:

Hermitage Volunteer Fire Department, Inc.

Patagonia Volunteer Fire Company

JOINT HERMITAGE/PATAGONIA VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Unauthorized Expenditure

By receiving reimbursement of \$36,532 from the affiliated fire company for the unauthorized expenditure made in the prior audit period.

JOINT HERMITAGE/PATAGONIA VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

**Finding – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle**

Condition: In 2004, the relief association had expended \$37,875 towards the joint purchase of a 1991 Grumman Snorkel apparatus with the affiliated fire company which had a total cost of \$177,875. The relief association entered into an agreement with the affiliated fire company dated March 10, 2004 where the relief association would receive the pro-rata share percentage of 21.3% if the vehicle was ever sold. In 2018, the jointly purchased vehicle was sold for \$25,000; however, the relief association did not receive and deposit its proportional ownership interest of the proceeds from the sale of the jointly purchased vehicle in the amount of \$5,325.

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. Once the vehicle is sold, the relief association officials should closely monitor all sales to ensure proceeds are received and timely deposited into a relief association account.

Cause: Relief association officials did execute a formal written agreement with the fire company; however, failed to ensure that it received and deposited its proportional ownership interest due from the proceeds of the sale of a jointly purchased vehicle with the affiliated fire company into a relief association account.

Effect: The failure to receive and deposit the proceeds from the sale of a jointly purchased vehicle with the affiliated fire company places the relief association's ownership interest at greater risk. As a result, the relief association was unable to use the funds for general operating expenses or for investment purposes.



JOINT HERMITAGE/PATAGONIA VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that the relief association be reimbursed \$5,325 for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all future proceeds resulting from the sale of a jointly purchased vehicle are timely deposited in a relief association account. 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 \$5,325 for their pro-rata share of the proceeds from the sale of the jointly purchased vehicle on December 31, 2019.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$5,325 was received. Compliance for timely deposits of all future proceeds resulting from the sale of a jointly purchased vehicle during the next audit period will be subject to verification through our next audit.

JOINT HERMITAGE/PATAGONIA VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2018

Cash	\$ 142,767
Fair Value of Investments	<u>1,696,118</u>
Total Cash and Investments	<u>\$ 1,838,885</u>

JOINT HERMITAGE/PATAGONIA VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Relief benefits	\$ 12,515
Fire Services:	
Equipment purchased	\$ 389,246
Equipment maintenance	26,041
Training expenses	1,801
Fire prevention materials	847
Total Fire Services	\$ 417,935
Administrative Services:	
Other administrative expenses	\$ 9,648
Bond premiums	750
Total Administrative Services	\$ 10,398
Total Investments Purchased	\$ 206,540
Other Expenditures:	
Duplicate expenditure*	\$ 172
Total Expenditures	\$ 647,560

\* In 2017 and 2018, the relief association made an insignificant duplicate payment disbursement in the amount of \$172 which was not authorized by Act 118. We disclosed this issue to relief association officials on December 16, 2019.

JOINT HERMITAGE/PATAGONIA VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Joint Hermitage/Patagonia Volunteer Firemen's Relief Association Governing Body:

**Mr. Keith Scheuermann**  
President

**Mr. Thomas J. Rollinson**  
Vice President

**Mr. Walter Y. Cowan**  
Secretary

**Mr. Patrick Bradac**  
Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report:

**Mr. Gary Hinkson**  
Secretary  
Hermitage City

**Ms. Jody Scopack**  
Secretary  
Lackawannock Township

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).