

# COMPLIANCE AUDIT

---

## The Firemen's Relief Association of Lansdowne, PA Delaware 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



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

EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Pete Bochanski, President  
The Firemen's Relief Association of  
Lansdowne, PA  
Delaware County

We have conducted a compliance audit of The Firemen's Relief Association of Lansdowne, PA (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 an independent confirmation of the cash balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2018, the relief association had a cash balance of \$577,327, we were not able to verify this cash balance.

We were also not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

Based on our audit procedures, we conclude that, for the period January 1, 2017 to December 31, 2018:

- 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.
- Because of the significance of the matter described in the finding below and discussed later in this report and the effects, if any, of the matters described in the preceding paragraphs, the relief association did not, in all significant respects, comply 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, collectively as a whole. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding – Noncompliance With Prior Audit Recommendation – Failure To Maintain An Active Pennsylvania Sales Tax Exemption Number Resulting In Payment Of Pennsylvania Sales Tax

We have also issued the observation below as detailed in the Observation section of this report.

Observation – NCUA Coverage Limits Exceeded

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.



EUGENE A. DEPASQUALE  
Auditor General

September 5, 2019

## CONTENTS

	<u>Page</u>
Background .....	1
Status of Prior Finding .....	3
Finding and Recommendation:	
Finding – Noncompliance With Prior Audit Recommendation – Failure To Maintain An Active Pennsylvania Sales Tax Exemption Number Resulting In Payment Of Pennsylvania Sales Tax .....	4
Observation:	
Observation – NCUA Coverage Limits Exceeded.....	6
Potential Withhold of State Aid.....	7
Supplementary Financial Information .....	8
Report Distribution List .....	10

## 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>
Lansdowne Borough	Delaware	\$52,149	\$47,805

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:

Lansdowne Fire Company

THE FIREMEN'S RELIEF ASSOCIATION OF LANSDOWNE, PA  
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 Finding and Recommendation section of this report:

- Failure To Maintain An Active Pennsylvania Sales Tax Exemption Number Resulting In Payment Of Pennsylvania Sales Tax

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 LANSDOWNE, PA  
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Audit Recommendation – Failure To Maintain An Active Pennsylvania Sales Tax Exemption Number Resulting In Payment Of Pennsylvania Sales Tax**

Condition: During the prior audit period, the relief association failed to maintain an active Pennsylvania sales tax exemption number resulting in the relief association paying \$41,524 of Pennsylvania sales tax to a vendor from which the relief association purchased equipment, and relief association officials did not take corrective action to reapply for a Pennsylvania sales tax exemption number or seek a refund for the sales tax paid as recommended. Although the relief association previously held its own valid, active sales tax exemption number, it lapsed on October 31, 2004 and is no longer valid. We noted that sales tax was not charged by vendors for equipment purchased during the current audit period, and relief association officials did not know why sales tax was not charged.

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.

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to obtain a valid state sales tax exemption number to provide to all vendors from which the relief association purchases equipment. Furthermore, the relief association officials failed to obtain reimbursement for the payment of the sales tax.

Effect: As a result of the relief association's failure to maintain an active sales tax exemption number and provide this number to all of its vendors, the relief association paid Pennsylvania sales tax amounting to \$41,524 on a purchase made during the prior audit period, which reduced the funds otherwise available for general operating expenditures and for investment purposes under Act 118. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We again recommend that the relief association officials immediately reapply for a sales tax exemption number from the Pennsylvania Department of Revenue and furnish this exemption number to all vendors from whom the relief association subsequently purchases equipment. In addition, we also recommend that relief association officials seek a refund of the sales tax paid, in the amount of \$41,524, by filing an appeal form (REV-65BA) with the Pennsylvania Department of Revenue's Board of Appeals. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.



THE FIREMEN'S RELIEF ASSOCIATION OF LANSDOWNE, PA  
FINDING AND RECOMMENDATION

**Finding – (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: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

THE FIREMEN'S RELIEF ASSOCIATION OF LANSDOWNE, PA  
OBSERVATION

**Observation – NCUA Coverage Limits Exceeded**

As disclosed in a verbal observation in the two previous audits, the relief association again failed to ensure that all cash deposits were below the NCUA coverage limits per account ownership in one credit union. As of December 31, 2018, the relief association's ending cash balance with the credit union amounted to \$577,327.

The National Credit Union Administration (NCUA) is an independent agency of the United States government that regulates, charters and supervises federal credit unions. NCUA insurance is backed by the full faith and credit of the United States government.

NCUA insurance covers all deposit accounts, including:

- Regular shares
- Share draft accounts (similar to checking)
- Money market accounts
- Share certificates

NCUA insurance does not cover losses on money invested in stocks, bonds, mutual funds, life insurance policies and annuities. The standard share insurance amount is \$250,000 per share owner, per insured credit union, for each account ownership category.

Section 7413 of Act 118 states that the purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure as far as circumstances will reasonable permit, that the funds shall be available for the protection of the volunteer firefighters' and their heirs.

Furthermore, prudent business practice dictates that in addition to performing monthly credit union reconciliations, the relief association should ensure the relief association's cash balance does not exceed NCUA limits set by credit union regulations. Lack of effective monitoring of relief association cash and investment assets places the relief association funds at greater risk for loss.

The relief association should monitor all cash and investment assets that are eligible for NCUA insurance and ensure the balance of those assets per the credit union does not exceed NCUA coverage limits.

THE FIREMEN'S RELIEF ASSOCIATION OF LANSDOWNE, PA  
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by the finding contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action may not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

THE FIREMEN'S RELIEF ASSOCIATION OF LANSDOWNE, PA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH BALANCE  
AS OF DECEMBER 31, 2018

Cash	<u>\$ 577,327</u>
------	-------------------

THE FIREMEN'S RELIEF ASSOCIATION OF LANSDOWNE, PA  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 107,662
Relief benefits	180
Tokens of sympathy and goodwill	133
Total Benefit Services	\$ 107,975
Fire Services:	
Equipment purchased	\$ 9,488
Equipment maintenance	15,181
Total Fire Services	\$ 24,669
Administrative Services:	
Other administrative expenses	\$ 5,999
Bond premiums	399
Total Administrative Services	\$ 6,398
Total Expenditures	\$ 139,042

THE FIREMEN'S RELIEF ASSOCIATION OF LANSDOWNE, PA  
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 Lansdowne, PA Governing Body:

**Mr. Pete Bochanski**  
President

**Mr. Thomas Fitzpatrick**  
Vice President

**Mr. Jeff Quinn**  
Secretary

**Mr. John Lesage**  
Treasurer

**Mr. H. Wayne Worley**  
Chairman of the Board

**Mr. Rick Russel**  
Board Member

**Mr. Glenn Baker**  
Board Member

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

**Mr. Michael Schleigh**  
President  
Lansdowne Borough

THE FIREMEN'S RELIEF ASSOCIATION OF LANSDOWNE, PA  
REPORT DISTRIBUTION LIST

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).