

COMPLIANCE AUDIT

Monessen Volunteer Fire Department
Hose House No. 2 Relief Association
Westmoreland County, Pennsylvania
For the Period
January 1, 2018 to December 31, 2020

August 2021



Commonwealth of Pennsylvania
Department of the Auditor General
Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Jordan Moux, President
Monessen Volunteer Fire Department
Hose House No. 2 Relief Association
Westmoreland County

We have conducted a compliance audit of the Monessen Volunteer Fire Department Hose House No. 2 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, 2018 to December 31, 2020.

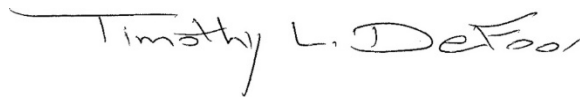
The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective 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, 2018 to December 31, 2020, 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 – Undocumented And Unsecured Loan

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General

August 13, 2021

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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>2018</u>	<u>2019</u>	<u>2020</u>
Monessen City	Westmoreland	\$13,945	\$15,201	\$15,343

BACKGROUND – (Continued)

Based on the relief association's records, its total cash and investments as of December 31, 2020 were \$41,772, as illustrated below:

Cash	\$ 29,898
Book Value of Other Investments	<u>11,874</u>
Total Cash and Investments	<u>\$ 41,772</u>

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$48,833, 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	<u>\$ 17,268</u>
Fire Services:	
Equipment purchased	\$ 12,341
Equipment maintenance	4,562
Training expenses	<u>1,425</u>
Total Fire Services	<u>\$ 18,328</u>
Administrative Services:	
Other administrative expenses	\$ 58
Bond premiums	<u>1,305</u>
Total Administrative Services	<u>\$ 1,363</u>
Total Investments Purchased	<u>\$ 11,874</u>
Total Expenditures	<u>\$ 48,833</u>

¹ 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:

Monessen Volunteer Fire Department Hose House No. 2

MONESSEN VOLUNTEER FIRE DEPARTMENT HOSE HOUSE NO. 2
RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Undocumented And Unsecured Loan

Condition: On February 6, 2019, the relief association made a loan to the affiliated fire department in the amount of \$11,874 without a formal written loan agreement. This loan was also unsecured.

Criteria: Section 7416(c)(3) of Act 118 states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any obligation of an incorporated fire company, provided that the obligation is: (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

In addition, prudent business practice requires such terms of the obligation be placed into a written loan agreement. Further, under Act 118, a minimum of three percent interest is required on the repayment of loans provided by the relief association.

Cause: Relief association officials indicated that they inadvertently neglected to complete a loan agreement with the fire department. Relief officials did not address the issue concerning the lack of security and interest for the loan.

Effect: Failure to adequately document the loan and obtain adequate security and apply a minimum of three percent interest through a formal written agreement places the investment at greater risk. In addition, as a result of the failure to document the loan and obtain adequate security and apply the minimum required interest rate, the expended funds were not available for general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association officials and fire company prepare a formal written loan agreement, signed by both parties, specifying the payment schedule and the interest rate. The loan agreement must also specifically identify the collateral to protect the investment as required by Section 7416(c)(3) of Act 118. If such action is not taken, we recommend that the loan be immediately liquidated. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

MONESSEN VOLUNTEER FIRE DEPARTMENT HOSE HOUSE NO. 2
RELIEF ASSOCIATION
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, the affiliated fire department reimbursed the relief association \$1,268 on April 20, 2021, \$8,200 on April 22, 2021, and \$2,406 on June 30, 2021 for a total of \$ 11,874. In addition, the affiliated fire department reimbursed the relief association for the three percent interest on the undocumented loan in the amount of \$357 on July 8, 2021.

Auditor's Conclusion: We reviewed supporting documentation verifying that the reimbursement of \$12,231 was received. Compliance for maintaining appropriate documentation for any loans made during the next audit period will be subject to verification through our next audit.

MONESSEN VOLUNTEER FIRE DEPARTMENT HOSE HOUSE NO. 2
RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Monessen Volunteer Fire Department Hose House No. 2 Relief Association Governing Body:

Mr. Jordan Moux
President

Mr. Mike Castner
Vice President

Mr. Delmar Hepple
Secretary

Mr. Donald S. Gregor
Treasurer

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

Mr. John Harhai
Manager
Monessen City

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.