

# COMPLIANCE AUDIT

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## Oak Ridge Volunteer Firemen's Relief Association

Allegheny County, Pennsylvania

For the Period

January 1, 2018 to December 31, 2019

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February 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR  
AUDITOR GENERAL

Ms. Kelli Supan, President  
Oak Ridge Volunteer Firemen's  
Relief Association  
Allegheny County

We have conducted a compliance audit of the Oak Ridge 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, 2018 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.

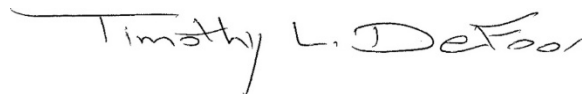
Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2019:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- Because of the significance of the matter described in Finding No. 1 below and discussed later in this report, 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 No. 1 – Undocumented And Unsecured Loans

Finding No. 2 – Inadequate Signatory Authority For The Disbursement Of Funds

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 9, 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.

**BACKGROUND – (Continued)**

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

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>
South Fayette Township	Allegheny	\$22,090	\$24,122

Based on the relief association’s records, its total cash and investments as of December 31, 2019 were \$165,814, as illustrated below:

Cash	\$ 29,990
Fair Value of Investments	14,007
Book Value of Other Investments	<u>121,817</u>
Total Cash and Investments	<u>\$ 165,814</u>

## BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2019 were \$162,819, 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.<sup>1</sup> **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	\$	8,547
Death benefits		1,000
Total Benefit Services	\$	<u>9,547</u>

#### Fire Services:

Equipment purchased	\$	27,863
Equipment maintenance		3,294
Training expenses		120
Total Fire Services	\$	<u>31,277</u>

#### Administrative Services:

Other administrative expenses	\$	50
Bond premiums		128
Total Administrative Services	\$	<u>178</u>

Total Investments Purchased	\$	<u>121,817</u>
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Total Expenditures	\$	<u>162,819</u>
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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:

Oak Ridge Volunteer Fire Department

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

OAK RIDGE 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 \$1,655 from the affiliated fire company for the unauthorized expenditure made in the prior audit period.



OAK RIDGE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Undocumented And Unsecured Loans**

Condition: On May 7, 2018, the relief association made an unsecured loan to the affiliated fire department in the amount of \$115,817 without preparing a formal written loan agreement.

Furthermore, two additional unsecured loans were made to the affiliated fire department on August 6, 2019 and August 29, 2019, in the amounts of \$4,000 and \$2,000, respectively, without preparing formal written loan agreements.

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 obligations be placed into written loan agreements.

Cause: Relief association officials indicated that they were unaware that the loans to the fire department must be documented and secured to ensure compliance with Act 118 provisions.

Effect: Failure to adequately document the loans through formal written agreements and obtain adequate security for the loans places the investments at greater risk. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials and fire department officials prepare formal written loan agreements, signed by both parties, specifying the payment schedule and the interest rate. The loan agreements 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 loans be immediately liquidated. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

OAK RIDGE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (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 relief association officials provided a loan agreement and collateral for the May 7, 2018 loan signed by both parties on January 22, 2021 that stated that the unpaid principal and accrued interest shall be payable in monthly installments of \$800, beginning on January 30, 2021, and continuing until December 30, 2035, at which the remaining unpaid principal and interest shall be due in full.

Auditor's Conclusion: We reviewed the supporting documentation verifying the May 7, 2018 loan agreement and collateral of the loan; however, we continue to recommend that the relief association officials and fire department officials prepare formal written loan agreements, signed by both parties, specifying the payment schedule and the interest rate for the two remaining loans. 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.

**Finding No. 2 – Inadequate Signatory Authority For The Disbursement Of Funds**

Condition: During the current audit engagement, we identified 28 checks out of 35 checks drawn on the relief association's checking account that contained two signatures; however, one of the signatures was from the Fire Chief who was not an authorized officer as stated in the relief association's bylaws. We were also unable to determine if the other signature was the signature of the disbursing officer, even though the disbursing officer's signature is required by Act 118 and the relief association's bylaws. Issuing checks with the signature of an unauthorized officer and without the signature of the disbursing officer negates the relief association's internal control over the disbursement process.

Criteria: Section 7415(c)(3) of Act 118 states, in part:

The bylaws shall 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.

The relief association's bylaws at Article III, Section 1 states, in part:

The officers of this association shall consist of a President, Vice President, Secretary, Treasurer and Financial Secretary.

OAK RIDGE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

In addition, the relief association's bylaws at Article VII, Section 1 states:

The signatures of at least two officers, one of whom shall be the Treasurer, shall be required for the issuance of relief association checks, withdrawal from the association savings account, the redemption of any relief association investment or on any other negotiable instrument issued by the association.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two 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 officials indicated that this practice had been ongoing.

Effect: As a result of the relief association issuing checks with only one authorized signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118. 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.

OAK RIDGE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 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.

OAK RIDGE 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

Oak Ridge Volunteer Firemen's Relief Association Governing Body:

**Ms. Kelli Supan**  
President

**Ms. Bryne Allcorn**  
Vice President

**Ms. Meghan Sperring**  
Secretary

**Mr. William Allcorn**  
Treasurer

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

**Mr. John Barrett**  
Secretary  
South Fayette 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).