

COMPLIANCE AUDIT

Volunteer Firefighters' Relief Association
of the Friendship Hose Company No. 1,
Orwigsburg, Pennsylvania
Schuylkill County
For the Period
January 1, 2017 to December 31, 2018

July 2019



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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Scott M. Rarick, President
Volunteer Firefighters' Relief Association
of the Friendship Hose Company No. 1,
Orwigsburg, Pennsylvania
Schuylkill County

We have conducted a compliance audit of the Volunteer Firefighters' Relief Association of the Friendship Hose Company No. 1, Orwigsburg, Pennsylvania (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 copies of canceled or imaged checks from the relief association. While the relief association provided copies of 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.
- Except for the effects, if any, of the matter described in the preceding paragraph, 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 – Noncompliance With Prior Audit Recommendation – Inadequate Documentation Of Mortgage

Finding No. 2 – Unauthorized Expenditures

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 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.

July 10, 2019


EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Finding	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Documentation Of Mortgage	4
Finding No. 2 – Unauthorized Expenditures.....	5
Supplementary Financial Information	7
Report Distribution List	9

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>
North Manheim Township	Schuylkill	\$ 4,395	\$ 4,001
Orwigsburg Borough	Schuylkill	\$15,720	\$14,403

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:

Friendship Hose Company No. 1

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OF THE FRIENDSHIP HOSE
COMPANY NO. 1, ORWIGSBURG, PENNSYLVANIA
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 Findings and Recommendations section of this report:

- Inadequate Documentation Of Mortgage

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.

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OF THE FRIENDSHIP HOSE
COMPANY NO. 1, ORWIGSBURG, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Documentation Of Mortgage

Condition: On January 26, 2016, the relief association granted a mortgage to the affiliated fire company in the amount of \$50,000; however, we could not verify whether the mortgage was adequately secured due to a lack of supporting documentation evidencing the relief association's first lien position or the appraised value of the property securing the loan.

A similar condition was noted in our prior audit report.

Criteria: Section 7416(c)(1) and (3) of Act 118 states:

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

- (1) In any form of investment named in 20 Pa.C.S. Ch. 73 (relating to municipalities investments). First mortgages insuring repayment of loans by relief associations shall provide for a minimum interest payment of 3% and not exceed 80% of the appraised value of real property covered by the mortgage.
- (2) 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.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to comply with Act 118 provisions concerning the security requirements for mortgages.

Effect: Since the relief association officials could not provide documentation of their first lien position or the appraised value of the property, this mortgage is not considered to be secured as required by Act 118. Failure to properly secure the mortgage places the investment at greater risk.

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OF THE FRIENDSHIP HOSE
 COMPANY NO. 1, ORWIGSBURG, PENNSYLVANIA
 FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the relief association officials provide verification of first lien position and provide documentation of the appraised value of the property. If such documentation cannot be acquired, we recommend that the mortgage be immediately liquidated. 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 provided an appraisal on July 2, 2019 and paid the remainder of the mortgage due to the relief association on July 12, 2019. The funds were also deposited into the relief association account on July 12, 2019.

Auditor's Conclusion: We reviewed documentation verifying that the mortgage was paid in full on July 12, 2019. Compliance for mortgages made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
05/14/18	2052	CDL license	\$ 495
05/14/18	2053	CDL license	495
Total			<u>\$ 990</u>

Criteria: Section 7416(f) of Act 118 states:

The funds of any volunteer firefighters' relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.
- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OF THE FRIENDSHIP HOSE
COMPANY NO. 1, ORWIGSBURG, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Costs associated with the purchase of CDL licenses do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118.

Recommendation: We recommend that the relief association be reimbursed \$990 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of Act 118 to aid them in determining the propriety of future expenditures. 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 \$990 for the unauthorized expenditures on May 3, 2019.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$990 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OF THE FRIENDSHIP HOSE
COMPANY NO. 1, ORWIGSBURG, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2018

Cash	\$	70,279
Fair Value of Investments		207,391
Book Value of Other Investments		<u>14,434</u>
Total Cash and Investments	\$	<u>292,104</u>

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OF THE FRIENDSHIP HOSE
COMPANY NO. 1, ORWIGSBURG, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 8,410
Fire Services:	
Equipment purchased	\$ 15,620
Equipment maintenance	5,150
Training expenses	1,361
Total Fire Services	\$ 22,131
Administrative Services:	
Other administrative expenses	\$ 2,986
Bond premiums	297
Total Administrative Services	\$ 3,283
Other Expenditures:	
Unauthorized expenditures	\$ 990
Total Expenditures	\$ 34,814

VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OF THE FRIENDSHIP HOSE
COMPANY NO. 1, ORWIGSBURG, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Volunteer Firefighters' Relief Association of the Friendship Hose Company No. 1, Orwigsburg,
Pennsylvania Governing Body:

Mr. Scott M. Rarick
President

Mr. Kyle Schoeneman
Vice President

Mr. Franklin Fisher
Secretary

Mr. Allan C. Shepler
Treasurer

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

Ms. Barbara G. Miller
Secretary
North Manheim Township

Ms. Sherry M. Edwards
Secretary
Orwigsburg Borough

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.