

COMPLIANCE AUDIT

Parker City Volunteer Firemen's Relief Association

Armstrong County, Pennsylvania

For the Period

January 1, 2020, to December 31, 2022

April 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Robert Thompson, President
Parker City Volunteer Firemen's
Relief Association
Armstrong County

We have conducted a compliance audit of the Parker City Volunteer Firemen's Relief Association (relief association) for the period January 1, 2020, to December 31, 2022. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

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 association 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.

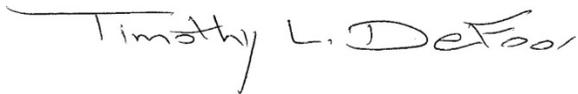
Based on our audit procedures, we conclude that, for the period January 1, 2020, to December 31, 2022:

- 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.
- 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 – Terms Of Loan Agreement Do Not Comply With The VFRA Act Requirements

Finding No. 2 – Erroneous Deposit 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
March 22, 2024

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code¹, and the Volunteer Firefighters' Relief Association Act² ("VFRA Act"), 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 Law³ (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.

The VFRA Act 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, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, 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 relief association officers therefore have a responsibility to the public to conduct the relief association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all relief association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the relief 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Hovey Township	Armstrong	\$ 394	\$ 309	\$ 340
Parker City	Armstrong	\$3,073	\$2,759	\$2,897
Allegheny Township	Butler	\$1,190	\$1,102	\$1,324
Foxburg Borough	Clarion	\$1,024	\$ 832	\$1,011

¹ 72 P.S. § 403 (as last amended by Act 44 of 2017).

² 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

³ 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

BACKGROUND – (Continued)

Based on the relief association’s records, its total cash and investments as of December 31, 2022, was \$89,598, as illustrated below:

Cash	\$	9,743
Fair Value of Investments		49,215
Book Value of Other Investments	\$	<u>30,640</u>
Total Cash and Investments	\$	<u><u>89,598</u></u>

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$103,686, 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.⁴ **The scope of the Department’s audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Insurance premiums	\$	<u>9,013</u>
Fire Services:		
Equipment purchased	\$	15,455
Fire prevention materials		<u>1,462</u>
Total Fire Services	\$	<u>16,917</u>
Administrative Services:		
Bond Premiums	\$	<u>200</u>
Total Investments Purchased	\$	<u>48,110</u>
Other Expenditures		
Payments on loan	\$	<u>29,446</u>
Total Expenditures	\$	<u><u>103,686</u></u>

⁴ 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:

Parker City Volunteer Fire Department

PARKER CITY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with the prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Terms Of Loan Agreement Do Not Comply With The VFRA Act Requirements

We are concerned by the relief association's failure to correct this previously reported audit finding. The relief association management should strive to implement the recommendation and corrective action noted in this audit report.

PARKER CITY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Terms Of Loan Agreement Do Not Comply With The VFRA Act Requirements

Condition: On March 8, 2017, the relief association made a loan to the affiliated fire department in the amount of \$30,000. However, the relief association only charged two percent interest, not the required minimum of three percent. The terms of the loan agreement state that an interest payment of two percent will be due as a one-time payment on the loan no later than March 8, 2021. The relief association corrected this and charged the required three percent interest. The repayment of the loan was scheduled to be made in one lump sum payment before March 8, 2021; however, as of December 31, 2022, the affiliated fire department still has an outstanding interest balance of \$1,194. Additionally, the affiliated fire department failed to secure the loan with the proper collateral as required by the VFRA Act.

A similar condition was noted in our prior audit report.

Criteria: Section 7416(c)(3) of the VFRA Act requires that loans be:

. . . (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.

Based on the \$30,000 loan amount, the collateralized amount should be at least \$45,000.

Further, under the VFRA Act, a minimum of three percent interest is required on the repayment of loans provided by the relief association.

Cause: The relief association officials did not provide a reason why this occurred despite the relief association being notified of this condition during our prior audit.

Effect: Due to the relief association not receiving the correct interest payments, those funds would not be available for general operating expenses or for investment purposes.

PARKER CITY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the relief association officials update the terms of the loan agreement to comply with the requirements of the VFRA Act, including ensuring proper collateralization of the loan. In addition, relief association officials should collect the remaining balance of interest payments totaling \$1,194, representing the outstanding interest payments through December 31, 2022. If such action is not taken, we recommend that the loan be immediately liquidated. We further recommend that relief association officials ensure that all future loan agreements are completed in accordance with the VFRA Act requirements. 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 \$1,194 for the outstanding interest owed on February 18, 2024.

Auditor's Conclusion: We reviewed documentation verifying that the interest reimbursement of \$1,194 was received and the loan was satisfied. Compliance for future loans will be subject to verification through our next audit.

Finding No. 2 – Erroneous Deposit Of Funds

Condition: On April 16, 2021, funds from a lifetime member's estate totaling \$48,110 meant for the affiliated fire company were erroneously deposited into the relief association's certificate of deposit.

Criteria: Relief association funds should not be commingled with any other organization's funds in order to maintain effective control of its assets. In addition, adequate accounting and internal controls should include procedures to prevent erroneous deposits into the relief association account.

Cause: The relief association officials indicated that the funds received from the estate were erroneously deposited into the relief association account.

Effect: The failure to establish adequate internal controls to prevent commingling of relief association funds with other funds could result in errors when transferring funds in and out of relief association accounts.

PARKER CITY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association reimburse the fire company \$48,110 for the erroneous deposit. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association 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 indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

PARKER CITY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Parker City Volunteer Firemen's Relief Association Governing Body:

Mr. Richard Farrington
President

Mr. Richard Amsler
Vice President

Ms. Jacque Gombos
Secretary

Mr. William McCall
Treasurer

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

Ms. Lisa A. Bartley
Secretary
Hovey Township

Ms. Linda K. Strauser
Secretary
Parker City

Ms. Robin Farrington
Secretary
Allegheny Township

Ms. Karen Best
Secretary
Foxburg Borough

PARKER CITY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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