

COMPLIANCE AUDIT

Parker City Volunteer Firemen's Relief Association

Armstrong County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2019

October 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
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) 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, 2019.

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, 2017 to December 31, 2019, 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 – Terms Of Loan Agreement Do Not Comply With Act 118
Requirements

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.

September 17, 2020



EUGENE A. DEPASQUALE
Auditor General

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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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Hovey Township	Armstrong	\$ 391	\$ 364	\$ 391
Parker City	Armstrong	\$3,089	\$2,829	\$3,020
Allegheny Township	Butler	\$1,219	\$1,092	\$1,179
Foxburg Borough	Clarion	\$1,117	\$1,015	\$1,018

BACKGROUND – (Continued)

Based on the relief association's records, its total cash and investments as of December 31, 2019 were \$63,769, as illustrated below:

Cash	\$	30,911
Fair Value of Investments		1,031
Book Value of Other Investments		<u>31,827</u>
Total Cash and Investments	\$	<u><u>63,769</u></u>

Based on the relief association's records, its total expenditures for the period January 1, 2017 to December 31, 2019 were \$74,639, 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>14,266</u>
Fire Services:	
Equipment purchased	\$ 1,825
Equipment maintenance	1,271
Training expenses	830
Fire prevention materials	<u>1,260</u>
Total Fire Services	\$ <u>5,186</u>
Administrative Services:	
Other administrative expenses	\$ 87
Bond premiums	<u>100</u>
Total Administrative Services	\$ <u>187</u>
Total Investments Purchased	\$ <u>55,000</u>
Total Expenditures	\$ <u><u>74,639</u></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:

Parker City Volunteer Fire Department

PARKER CITY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Terms Of Loan Agreement Do Not Comply With Act 118 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. Additionally, the affiliated fire department failed to secure the loan with the proper collateral as required by Act 118.

Criteria: Section 7416(c)(3) of Act 118 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 Act 118, a minimum of three percent interest is required on the repayment of loans provided by the relief association.

When applying the minimum three percent interest required by Act 118, a total of \$1,827 is due to the relief association by March 8, 2021, as opposed to the \$1,212 in interest payments due under the existing loan agreement, which is based on a two percent interest rate.

Cause: Relief association officials were not fully aware of the requirements for loans within Act 118.

Effect: A total of \$615 would be lost as a result of the relief association not applying the minimum interest requirement. In addition, 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
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the relief association officials update the terms of the loan agreement to comply with the requirements of Act 118, including ensuring proper collateralization of the loan and the application of a minimum of three percent interest. In addition, relief association officials should collect the total interest payments due by the March 8, 2021 maturity date of the loan. 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 Act 118 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 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 Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Parker City Volunteer Firemen's Relief Association Governing Body:

Mr. Robert Thompson
President

Mr. Richard J. Farrington
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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