

COMPLIANCE AUDIT

Perseverance Fire Company Volunteer Firemen's Relief Association Lebanon County, Pennsylvania For the Period January 1, 2018 to January 15, 2020

June 2021



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



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Daniel P. Mohn, President
Perseverance Fire Company Volunteer
Firemen's Relief Association
Lebanon County

We have conducted a compliance audit of the former Perseverance Fire Company 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 January 15, 2020.

The objectives of the audit were:

1. To determine if the former relief association took appropriate corrective action to address the findings contained in our prior audit report.
2. To determine if the former 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 January 15, 2020:

- The former relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the former relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- The former 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 – Failure To Maintain Surety (Fidelity) Bond Coverage

Finding No. 2 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 3 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

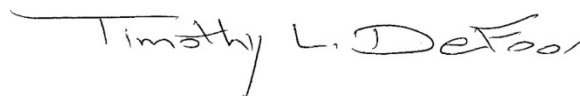
In addition, as of January 15, 2020, the former relief association completed the process of dissolution and merged with The Ono Fire Company Relief Association, the Lickdale Community Fire Company Relief Association and the Greenpoint Firemen's Relief Association to form Northern Lebanon Fire and Emergency Services Relief Association. Consequently, all remaining monetary assets and equipment were transferred to the Northern Lebanon Fire and Emergency Services Relief Association.

We have also issued the observation below as detailed in the Observation section of this report.

Observation – A Relief Association-Owned Asset May Not Have Been Used Or Disposed Of Prudently And In Accordance With Act 118

The contents of this report were discussed with the management of the former relief association and the management of the Northern Lebanon Fire and Emergency Services Relief Association, and where appropriate, their responses have been included in the report. We would like to thank former relief association officials for the cooperation extended to us during the conduct of the audit.

May 18, 2021



Timothy L. DeFoor
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	4
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Surety (Fidelity) Bond Coverage.....	5
Finding No. 2 – Failure To Maintain A Complete And Accurate Equipment Roster.....	6
Finding No. 3 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number.....	8
Observation:	
Observation – A Relief Association-Owned Asset May Not Have Been Used Or Disposed Of Prudently And In Accordance With Act 118.....	9
Report Distribution List	11

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 former relief association was 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 former 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>
Jonestown Borough	Lebanon	*	*	*

*Beginning with the 2017 state aid allocation, all allocations were given to the entity now known as the Northern Lebanon Fire and Emergency Services Relief Association. As of January 15, 2020, the former relief association dissolved its organization. Thereafter, it did not receive any further state aid allocations.

Based on the former relief association’s records, its total cash and investments as of January 15, 2020 were zero, as illustrated below:

Total Cash and Investments \$ 0

BACKGROUND – (Continued)

Based on the former relief association's records, its total expenditures for the period January 1, 2018 to January 15, 2020 were \$37,631, as noted below. The accuracy of these expenditures was evaluated as part of the Department's audit to conclude on the former 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	\$ 4,375
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Fire Services:

Equipment purchased	\$ 14,734
Equipment maintenance	462
Training expenses	8,973
Total Fire Services	<u>\$ 24,169</u>

Other Expenditures:

Transfer of monetary assets *	<u>\$ 9,087</u>
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Total Expenditures	<u><u>\$ 37,631</u></u>
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* Transfer of Monetary Assets/Dissolution of Relief Association.

As of January 15, 2020, the former relief association completed the process of dissolution and merged with The Ono Fire Company Relief Association, the Lickdale Community Fire Company Relief Association and the Greenpoint Firemen's Relief Association to form Northern Lebanon Fire and Emergency Services Relief Association. Consequently, all remaining monetary assets and equipment were transferred to the Northern Lebanon Fire and Emergency Services Relief Association. Due to the dissolution of the former relief association, we are providing officials of Northern Lebanon Fire and Emergency Services Relief Association copies of this report.

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The former relief association was affiliated with the following fire service organization:

Perseverance Fire Company

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

PERSEVERANCE FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The former relief association has complied with one of the two prior audit findings and recommendations, as follows:

- Untimely Deposit Of State Aid

The former relief association did not receive state aid allocation during the audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain Surety (Fidelity) Bond Coverage

We are concerned by the former relief association's failure to correct this previously reported audit finding. Since the former relief association dissolved its organization and consequently transferred its monetary assets to the Northern Lebanon Fire and Emergency Services Relief Association, Northern Lebanon Fire and Emergency Services Relief Association's management should strive to implement the recommendations and corrective actions noted in this audit report.

PERSEVERANCE FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: The former relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. The relief association's Surety (Fidelity) bond coverage expired on April 20, 2013.

A similar condition was noted in our prior *three* audit reports.

Criteria: Section 7415(c)(4) of Act 118 states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: The former relief association officials stated the insurance company discontinued the Surety (Fidelity) bond coverage without the approval of the relief association. Relief association officials again neglected to comply with the Act 118 provisions requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer, despite being notified of this condition during the three prior audits.

Effect: As a result of the authorized disbursing officer of the former relief association not being bonded, the former relief association's cash assets were not adequately safeguarded.

Recommendation: Due to the dissolution of the former relief association and affiliated Perseverance Fire Company and subsequent merger with The Ono Firemen's Relief Association, the Lickdale Community Fire Company Relief Association and the Greenpoint Firemen's Relief Association to form the Northern Lebanon Fire and Emergency Services Relief Association, we are providing this recommendation to the Northern Lebanon Fire and Emergency Services Relief Association officials. We recommend that the Northern Lebanon Fire and Emergency Services Relief Association officials maintain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by Act 118. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

PERSEVERANCE FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: Former relief association management and management of Northern Lebanon Fire and Emergency Services Relief Association agreed with the finding as presented at the audit exit conference. Management of the Northern Lebanon Fire and Emergency Services Relief Association indicated they will take action to comply with the recommendation.

Auditor's Conclusion: We are concerned by the former relief association's failure to correct this previously reported audit finding. The Northern Lebanon Fire and Emergency Services Relief Association's management should strive to implement the recommendation and corrective action noted in this audit report. Compliance will be subject to verification through our audit of the Northern Lebanon Fire and Emergency Services Relief Association.

Finding No. 2 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The former relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Specifically, the former relief association purchased \$14,734 of equipment during the current audit period and there was no equipment roster created or maintained for these purchases. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all equipment owned by the relief association.

Criteria: Prudent business practice dictates that the former relief association should have established adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should have included all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

PERSEVERANCE FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Former relief association officials failed to establish adequate internal control procedures over equipment by not requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment. The Northern Lebanon Fire and Emergency Services Relief Association does not have an accurate roster of all of the former relief owned equipment transferred.

Recommendation: Due to the dissolution of the former relief association and affiliated Perseverance Fire Company and subsequent merger with The Ono Firemen's Relief Association, the Lickdale Community Fire Company Relief Association and the Greenpoint Firemen's Relief Association, we are providing officials of the Northern Lebanon Fire and Emergency Services Relief Association copies of this report so that they are aware of the conditions that were detected during the course of the audit of the former relief association. We recommend that the Northern Lebanon Fire and Emergency Services Relief Association create a cumulative equipment roster of all equipment owned by the former relief association and complete a donation of equipment agreement (to Northern Lebanon Fire and Emergency Services Relief Association).

Furthermore, Northern Lebanon Fire and Emergency Services Relief Association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Former relief association management and management of Northern Lebanon Fire and Emergency Services Relief Association agreed with the finding as presented at the audit exit conference. Management of the Northern Lebanon Fire and Emergency Services Relief Association indicated they will take action to comply with the recommendation.

Auditor's Conclusion: The Northern Lebanon Fire and Emergency Services Relief Association's management should strive to implement the recommendation and corrective action noted in this audit report. Compliance will be subject to verification through our audit of the Northern Lebanon Fire and Emergency Services Relief Association.

PERSEVERANCE FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

Condition: The former relief association failed to maintain a Pennsylvania sales tax exemption number. Although the relief association did have its own sales tax exemption number, it expired on March 31, 2004, and is no longer valid.

Criteria: Section 7415(e) of Act 118 states:

A volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

Cause: Former relief association officials did not provide a cause for why this occurred.

Effect: As a result of the relief association's failure to maintain a sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on their purchases, which ultimately reduces the funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: Due to the dissolution of the former relief association and affiliated Perseverance Fire Company and subsequent merger with The Ono Firemen's Relief Association, the Lickdale Community Fire Company Relief Association and the Greenpoint Firemen's Relief Association, we are providing officials of the Northern Lebanon Fire and Emergency Services Relief Association copies of this report so that they are aware of the conditions that were detected during the course of the audit of the former relief association. We recommend that the Northern Lebanon Fire and Emergency Services Relief Association officials maintain a Pennsylvania sales tax exemption number. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Former relief association management and management of Northern Lebanon Fire and Emergency Services Relief Association agreed with the finding as presented at the audit exit conference. Management of the Northern Lebanon Fire and Emergency Services Relief Association indicated they will take action to comply with the recommendation.

Auditor's Conclusion: The Northern Lebanon Fire and Emergency Services Relief Association's management should strive to implement the recommendation and corrective action noted in this audit report. Compliance will be subject to verification through our audit of the Northern Lebanon Fire and Emergency Services Relief Association.

PERSEVERANCE FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
OBSERVATION

Observation – A Relief Association-Owned Asset May Not Have Been Used Or Disposed Of Prudently And In Accordance With Act 118

The former relief association officials agreed to sell a vehicle to the Northern Lebanon Fire and Emergency Services Inc. fire department without properly determining the value of the vehicle. The former relief attained a 2003 Ford F-350 from a previously dissolved relief association in accordance with guidelines for the dissolution of a relief association. The vehicle was wholly purchased by the previously dissolved relief on November 5, 2014 for a total cost of \$18,204.

The former relief's meeting minutes of August, 2018, documented the acceptance of the donated truck and noted that repairs were necessary to bring the truck to operational status that were quoted to be \$2,808. On October 18, 2018, the relief expended \$4,011 for the repairs.

The former relief's meeting minutes of April, 2019, stated the sale of the truck to the Northern Lebanon Fire and Emergency Services Inc. fire department for \$5,000 was approved by the Northern Lebanon Fire and Emergency Services Relief Association. The motion to sell the truck was approved by the former relief association. The proceeds of the sale in the amount of \$5,000 were deposited into the former relief association's account on September 13, 2019. The new title in the name of the Northern Lebanon Fire and Emergency Services Inc. is dated December 11, 2019.

The former relief association closed their bank account and transferred their remaining monetary assets on January 15, 2020 and held their final meeting on February 11, 2020 stating that the relief's "recording secretary has been directed to draft a letter effectively transferring any and all assets in possession of the Perseverance Fire Company of Jonestown Relief Association to the Northern Lebanon Fire and Emergency Services Relief Association in like manner prior to the dissolution of the Perseverance Fire Company of Jonestown Relief Association."

Relief association funds should be invested prudently and relief association officials should seek a reasonable rate of return on investments/assets it owns that retain a significant value.

As stipulated in Act 118, the primary purpose of a volunteer firefighters' relief association is to afford financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service.

PERSEVERANCE FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
OBSERVATION

Observation – (Continued)

Section 7413 Statement of purpose of Act 118 indicates in part:

The purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure, as far as circumstance will reasonably permit, that funds shall be available for the protection of volunteer firefighters and their heirs...

Because the asset was not properly valued and sold for potentially much less than what may be attainable on the open market, the relief association may have lost the opportunity to obtain a reasonable return on the value of its investment/asset. Therefore, the relief association may have lost the opportunity to ensure that the true value of the asset was obtained, and as a result, potential relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118.

We recommend in the future that relief association officials seek a reasonable return on the value of all of its investments/assets owned that retain an estimated/open market appreciable value. Any deviation from this practice should be well documented in the relief association's meeting minutes to justify the deviation from the expected prudent action. Furthermore, in the future, if the relief association does not comply with the aforementioned recommendations when considering selling assets of which it owns that still retain a significant value, the relief association's future state aid allocations may be subject to a withholding.

PERSEVERANCE FIRE COMPANY 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

Perseverance Fire Company Volunteer Firemen's Relief Association Governing Body:

Mr. Daniel P. Mohn
President

Mr. Henry W. Shuey
Vice President

Mr. Michael Johnsen
Secretary

Mr. Thomas P. Mohn
Treasurer

Northern Lebanon Fire and Emergency Services Relief Association Governing Body:

Mr. Allen Hummer
President

Mr. Noah Weaver
Vice President

Mr. Chad Cunningham
Secretary

Mr. Andrew Martin
Treasurer

PERSEVERANCE FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Ms. Joan Keefer
Secretary
Jonestown 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.