

COMPLIANCE AUDIT

Pine Township Volunteer Fireman's Relief Association Indiana County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

April 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Alan Ludwig, President
Pine Township Volunteer Fireman's
Relief Association
Indiana County

We have conducted a compliance audit of the Pine Township Volunteer Fireman'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, 2018.

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 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 objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, because of the significance of the matter described in the finding 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, for the period January 1, 2017 to December 31, 2018. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding – Failure To Secure Ownership Interest In Jointly Purchased Trailer And Vehicle

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 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.

March 30, 2020



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Finding and Recommendation:	
Finding – Failure To Secure Ownership Interest In Jointly Purchased Trailer And Vehicle.....	3
Potential Withhold of State Aid.....	5
Supplementary Financial Information	6
Report Distribution List	8

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>2017</u>	<u>2018</u>
Pine Township	Indiana	\$9,052	\$8,224

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:

Pine Township Volunteer Fire Company

PINE TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Failure To Secure Ownership Interest In Jointly Purchased Trailer And Vehicle

Condition: On March 21, 2018, the relief association expended \$1,575 for the purpose of jointly purchasing a trailer with the affiliated fire company. However, the relief association did not adequately secure its ownership interest in this jointly purchased trailer as the trailer was titled solely in the name of the affiliated fire company.

In addition, during the prior audit period, on September 29, 2015, the relief association expended \$4,064 for the purpose of jointly purchasing a vehicle with the affiliated fire company. The relief association and the affiliated fire company did execute a formal written agreement stating that if the vehicle was ever sold that the relief association would receive 100 percent of the proceeds; however, after further review and discussion with a relief association official, the official indicated that the association intended for the agreement to state that the relief association would receive \$4,064 if the vehicle was ever sold. However, the agreement should have specified that the relief association will receive a certain percentage of the proceeds from a future sale based on the proportion of the relief association's investment in relation to the investment made by the affiliated fire company. Therefore, a new agreement must be executed to specify both parties' original intent with a percentage stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold since the vehicle was titled solely in the name of the affiliated fire company.

Criteria: Section 7418(a) of Act 118 states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased trailer and vehicle by executing formal written agreements that enumerates the relief association's proportional share of financing. Such agreements shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the trailer and/or vehicle, in the event the trailer and/or vehicle are ever sold.

Cause: Relief association officials failed to implement internal controls to ensure that it adequately secured its proportional ownership interest in the jointly purchased trailer and vehicle.

PINE TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased trailer and vehicle places the relief association's ownership interest 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 execute formal written agreements with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased trailer and vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the trailer and/or vehicle are ever sold. We also recommend that the relief association provide copies of invoices for the trailer and vehicle as supporting documentation for the agreements. If such action is not taken, we recommend that the relief association be reimbursed \$5,639. 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: 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.

PINE TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by the finding 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.

PINE TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2018

Cash	<u>\$ 4,786</u>
------	-----------------

PINE TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:

Insurance premiums	<u>\$ 6,328</u>
--------------------	-----------------

Fire Services:

Equipment purchased	\$ 10,574
---------------------	-----------

Equipment maintenance	1,024
-----------------------	-------

Training expenses	<u>2,571</u>
-------------------	--------------

Total Fire Services	<u>\$ 14,169</u>
---------------------	------------------

Administrative Services:

Bond premiums	<u>\$ 665</u>
---------------	---------------

Other Expenditures:

Payments on loan	<u>\$ 7,500</u>
------------------	-----------------

Total Expenditures	<u><u>\$ 28,662</u></u>
--------------------	-------------------------

PINE TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Pine Township Volunteer Fireman's Relief Association Governing Body:

Mr. Alan Ludwig
President

Mr. Mitchell Meagher
Vice President

Ms. Amy Muir
Secretary

Mr. Keith Muir
Treasurer

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

Ms. Jennifer Lindahl
Secretary
Pine Township

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.