

# COMPLIANCE AUDIT

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## Firemen's Relief Association of State College, Pennsylvania Centre County For the Period January 1, 2016 to December 31, 2018

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February 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Richard Harris, President  
Firemen's Relief Association of State  
College, Pennsylvania  
Centre County

We have conducted a compliance audit of the Firemen's Relief Association of State College, 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, 2016 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.

We were not able to obtain an independent confirmation of a portion of the investment balance directly from one of the financial institutions. Therefore, while the relief association provided investment statements that indicated that, as of December 31, 2018, the relief association had an investment balance with a fair value of \$3,693,319, we were not able to verify a portion of this investment balance.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2016 to December 31, 2018, 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 – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 2 – Inadequate Minutes Of Meetings

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.

February 4, 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.

**BACKGROUND – (Continued)**

The relief association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Benner Township	Centre	\$ 1,813	\$ 1,691	\$ 1,557
College Township	Centre	\$ 81,994	\$ 72,885	\$ 66,656
Ferguson Township	Centre	\$139,902	\$129,415	\$118,417
Patton Township	Centre	\$117,252	\$106,318	\$ 97,163
State College Borough	Centre	\$218,644	\$200,901	\$183,091

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:

Alpha Fire Company of State College, Pennsylvania

FIREMEN'S RELIEF ASSOCIATION OF STATE COLLEGE, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Insufficient Surety (Fidelity) Bond Coverage**

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$1,000,000; however, as of December 31, 2018, the relief association's cash assets totaled \$1,576,700.

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: Relief association officials failed to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

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

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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 relief association increased their bond coverage to \$2,000,000 effective January 1, 2020.

Auditor's Conclusion: We reviewed documentation verifying that the bond coverage was increased to \$2,000,000. Compliance for sufficient bond coverage during the next audit period will be subject to verification through our next audit.

FIREMEN'S RELIEF ASSOCIATION OF STATE COLLEGE, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Inadequate Minutes Of Meetings**

Condition: The relief association failed to maintain detailed minutes of meetings as required by Act 118. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period.

Criteria: Section 7415(a) of Act 118 states, in part, that the relief association:

. . . must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

Cause: Relief association officials indicated that they were unaware that maintaining detailed minutes of meetings was required by Act 118.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend that the relief association officials maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. 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.



FIREMEN'S RELIEF ASSOCIATION OF STATE COLLEGE, PENNSYLVANIA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2018

Cash	\$ 1,576,700
Fair Value of Investments	<u>3,693,319</u>
Total Cash and Investments	<u><u>\$ 5,270,019</u></u>

FIREMEN'S RELIEF ASSOCIATION OF STATE COLLEGE, PENNSYLVANIA  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 629,151
Death benefits	174,434
Relief benefits	76,106
Tokens of sympathy and goodwill	3,708
Total Benefit Services	<u>\$ 883,399</u>
Fire Services:	
Equipment purchased	\$ 419,962
Equipment maintenance	72,251
Training expenses	53,228
Fire prevention materials	11,853
Total Fire Services	<u>\$ 557,294</u>
Administrative Services:	
Other administrative expenses	\$ 132,370
Bond premiums	3,460
Total Administrative Services	<u>\$ 135,830</u>
Total Investments Purchased	<u>\$ 1,850,000</u>
Total Expenditures	<u><u>\$ 3,426,523</u></u>

FIREMEN'S RELIEF ASSOCIATION OF STATE COLLEGE, PENNSYLVANIA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Firemen's Relief Association of State College, Pennsylvania Governing Body:

**Mr. Richard Harris**  
President

**Mr. Jeffrey S. Martin**  
Vice President

**Mr. Jude McDowell**  
Secretary

**Mr. Dennis Hampton**  
Treasurer

**Mr. Brian Rohrbaugh**  
Director

**Mr. Ronald A. Witmer**  
Director

**Mr. Steve Foster**  
Director

FIREMEN'S RELIEF ASSOCIATION OF STATE COLLEGE, PENNSYLVANIA  
REPORT DISTRIBUTION LIST

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

**Ms. Sharon Royer**  
Secretary  
Benner Township

**Mr. Adam T. Brumbaugh**  
Secretary  
College Township

**Mr. David Pribulka**  
Secretary  
Ferguson Township

**Mr. Douglas J. Erickson**  
Secretary  
Patton Township

**Ms. Sharon K. Ergler**  
Secretary  
State College Borough

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).