

COMPLIANCE AUDIT

Mount Pleasant Township Volunteer Fire Department No 2 Relief Association of Trauger, Westmoreland County Pennsylvania For the Period January 1, 2018 to December 31, 2020

July 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Donald E. Hill, Jr., President
Mount Pleasant Township Volunteer
Fire Department No 2 Relief Association of
Trauger, Westmoreland County Pennsylvania

We have conducted a compliance audit of the Mount Pleasant Township Volunteer Fire Department No 2 Relief Association of Trauger, Westmoreland County 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, 2018 to December 31, 2020.

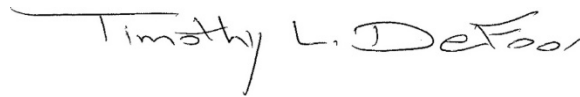
The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective 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, 2018 to December 31, 2020, 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 – Unsecured Loans And Failure To Complete Appropriate Loan Agreements

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.



Timothy L. DeFoor
Auditor General

June 30, 2021

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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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Mount Pleasant Township	Westmoreland	\$10,056	\$11,149	\$11,269

Based on the relief association’s records, its total cash as of December 31, 2020 was \$9,237, as illustrated below:

Cash	<u><u>\$ 9,237</u></u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$46,031, 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>\$ 23,484</u>
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Fire Services:

Equipment maintenance	\$ 14,863
Training expenses	94
Total Fire Services	<u>\$ 14,957</u>

Administrative Services:

Other administrative expenses	\$ 33
Bond premiums	300
Total Administrative Services	<u>\$ 333</u>

Total Investments Purchased	<u>\$ 7,257</u>
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Total Expenditures	<u><u>\$ 46,031</u></u>
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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:

Trauger Volunteer Fire Department

MOUNT PLEASANT TOWNSHIP VOLUNTEER FIRE DEPARTMENT NO 2 RELIEF
ASSOCIATION OF TRAUGER, WESTMORELAND COUNTY PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – Unsecured Loans And Failure To Complete Appropriate Loan Agreements

Condition: It was discovered that during the prior audit period, on November 14, 2016, the relief association made an unsecured loan to the affiliated fire company in the amount of \$2,526. The 2016 loan was to be paid in three annual payments at an interest rate of 2%. In addition, during the current audit period, on November 19, 2018, the relief association made another unsecured loan to the affiliated fire company in the amount of \$7,257. The 2018 loan was to be repaid at 2% interest by March of 2019. Although a letter was prepared for each loan from the affiliated fire company, there were no formal written agreements with the proper required signatures and the relief association only charged two percent interest, not the required minimum of three percent.

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 \$2,526 and \$7,257 loan amounts, the loans should have been secured by collateral valued at minimums of \$3,789 and \$10,886, respectively.

Furthermore, under Act 118, a minimum of three percent interest is required on the repayment of loans provided by the relief association.

Cause: Relief association officials stated that they did not realize that the proper amount of interest was not charged and that there was no collateral. They were also unaware that they had to have a loan agreement with the required four signatures (two different signatures from each entity).

Effect: Failure to adequately document the loans through formal written agreements and the failure to obtain adequate security for the loans places the investment at greater risk. 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.

Recommendation: We recommend that the relief association officials and the affiliated fire company officials prepare two formal written loan agreements, signed by both parties, specifying the payment schedule and a minimum of three percent interest rate. The loan agreements must also specifically identify the collateral to protect the investments as required by Section 7416(c)(3) of Act 118. In addition, relief officials should collect the total interest payments due for both loans. If such action is not taken, we recommend that the loans be immediately liquidated. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

MOUNT PLEASANT TOWNSHIP VOLUNTEER FIRE DEPARTMENT NO 2 RELIEF
ASSOCIATION OF TRAUGER, WESTMORELAND COUNTY PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – (Continued)

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 officials received all remaining loan payments and were reimbursed the total interest payments due in the amount of \$183 at the three percent rate on June 3, 2021.

Auditor's Conclusion: We reviewed documentation verifying that all loan payments and appropriate interest was received. Compliance for maintaining appropriate loan documentation during the next audit period will be subject to verification through our next audit.

MOUNT PLEASANT TOWNSHIP VOLUNTEER FIRE DEPARTMENT NO 2 RELIEF
ASSOCIATION OF TRAUGER, WESTMORELAND COUNTY PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mount Pleasant Township Volunteer Fire Department No 2 Relief Association of Trauger,
Westmoreland County Pennsylvania Governing Body:

Mr. Donald E. Hill, Jr.
President

Mr. Joseph R. Konopka
Vice President

Mr. Albert Herczyk
Secretary

Ms. Beth Ann Lawrence
Treasurer

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

Ms. Caprice M. Mills
Secretary
Mount Pleasant 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.