



**RELIANCE HOSE CO. NO. 2 VOLUNTEER FIREMEN'S RELIEF ASSOCIATION**

**HEREIN REFERRED TO AS:**

**RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**ALLEGHENY COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2005 TO DECEMBER 31, 2007**



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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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), 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 Reliance Volunteer Firefighters' 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 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, it is the responsibility of the volunteer firefighters' relief association 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, which is or are recognized as providing the service to the municipality. The Reliance Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

| <u>Municipality</u> | <u>County</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> |
|---------------------|---------------|-------------|-------------|-------------|
| Glassport Borough   | Allegheny     | \$10,832    | \$10,870    | \$11,015    |

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Reliance Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Reliance Hose Company No. 2

Mr. James Ali, President  
RELIANCE VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Allegheny County

We have conducted a compliance audit of the Reliance Volunteer Firefighters' 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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2005 to December 31, 2007. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

The objective of the audit was to determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Reliance Volunteer Firefighters' Relief Association's administration of state aid and accumulated funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objective. We also tested transactions, confirmed the Reliance Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2007, with the custodians of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objective.

The results of our audit for the period January 1, 2005 to December 31, 2007, found, in all significant respects, the Reliance Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following finding discussed later in this report. The results of our tests indicated the Reliance Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$11,333 and an investment balance with a fair value of \$4,000.

#### Finding – Unsecured Loans

The contents of this report were discussed with the management of the Reliance Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

August 20, 2008

JACK WAGNER  
Auditor General



RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – Unsecured Loans

Condition: On December 3, 2007, the relief association made an unsecured loan to Reliance Hose Company No. 2 in the amount of \$4,000. Additional unsecured loans were made to the fire company, subsequent to the audit period, on May 21, 2008, in the amount of \$319, and on July 29, 2008, in the amount of \$4,093, for a total of \$8,412. While the written loan agreement specifies that a fire company truck and an engine have been assigned as collateral, the loans have not been properly secured, since liens on the vehicles have not been registered with the Department of Transportation.

Criteria: Act 84 at 53 P.S. § 8506(c)(3) requires that loans be:

. . . secured by assets of the [fire] company having capital value equal to at least 150 percent of the amount of the obligation at the time it is made, and is subject to provisions which will amortize such loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least equal to 150 percent of the balance remaining due.

Cause: Relief association officials were unaware that the loans to the fire company must be secured with liens on the vehicles to ensure compliance with Act 84 provisions.

Effect: Failure to obtain adequate security for the loans places the investment at greater risk.

Recommendation: We recommend the relief association obtain adequate security for the loans to the fire company, as required by Act 84 at 53 P.S. § 8506(c)(3). In order to substantiate the collateralization of the loans, we recommend the relief association obtain evidence that the fire company has registered liens on the vehicles with the Department of Transportation. 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.

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.

RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2007

Act 84 at 53 P.S. § 8502(1) states, in part, that:

A volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds. All expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

|                                       |           |
|---------------------------------------|-----------|
| Benefit Services:                     |           |
| Insurance premiums                    | \$ 23,377 |
| Total Benefit Services                | \$ 23,377 |
|                                       |           |
| Fire Services:                        |           |
| Equipment purchased                   | \$ 13,829 |
| Equipment maintenance                 | 4,244     |
| Total Fire Services                   | \$ 18,073 |
|                                       |           |
| Administrative Services:              |           |
| Miscellaneous administrative expenses | \$ 24     |
| Total Administrative Services         | \$ 24     |
|                                       |           |
| Total Investments Purchased           | \$ 4,000  |

RELIANCE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Reliance Volunteer Firefighters' Relief Association Officers:

Mr. James Ali, President

Mr. Gary Oley, Secretary

Mr. Albert Csorba, Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Nancy M. Piazza-Whaby, Secretary  
Glassport Borough

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).