

COMPLIANCE AUDIT

Wilkins Township Firemen's Relief Association Allegheny County, Pennsylvania For the Period January 1, 2018 to December 31, 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. Paul Padula, President
Wilkins Township Firemen's
Relief Association
Allegheny County

We have conducted a compliance audit of the Wilkins Township 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 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.

We were not able to obtain independent confirmations of the cash balance and the investment balance directly from the financial institutions. Therefore, while the relief association provided copies of bank and investment statements that indicated that, as of December 31, 2020, the relief association had a cash balance of \$176,453 and an investment balance with a fair value of \$80,842, we were not able to verify those cash and investment balances.

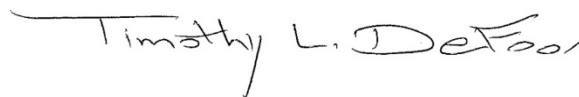
Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2018 to December 31, 2020 the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Finding No. 2 – Failure To Disclose Related Party Transactions

Finding No. 3 – Failure To Maintain Minutes Of Meetings

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.



Timothy L. DeFoor
Auditor General

June 11, 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>
Wilkins Township	Allegheny	\$30,642	\$32,918	\$33,448

Based on the relief association's records, its total cash and investments as of December 31, 2020 were \$257,295, as illustrated below:

Cash	\$ 176,453
Fair Value of Investments	<u>80,842</u>
Total Cash and Investments	<u>\$ 257,295</u>

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$107,527, 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>\$ 56,030</u>
Fire Services:	
Equipment purchased	\$ 47,650
Equipment maintenance	<u>2,499</u>
Total Fire Services	<u>\$ 50,149</u>
Administrative Services:	
Other administrative expenses	\$ 507
Bond premiums	<u>841</u>
Total Administrative Services	<u>\$ 1,348</u>
Total Expenditures	<u>\$ 107,527</u>

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 organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Wilkins Township Volunteer Fire Company No. 1

Wilkins Township Volunteer Fire Company No. 3

Wilkins Township Volunteer Fire Company No. 4

WILKINS TOWNSHIP FIREMEN’S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Condition: On January 7, 2021 and January 8, 2021, the relief association expended \$9,000 and \$1,830, respectively, for a total amount of \$10,830 for fire-company owned equipment without properly securing its ownership interest, as detailed below:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
01/07/2021	ETF	Equipment vendor	\$ 9,000
01/08/2021	ETF	Equipment vendor	<u>1,830</u>
Total			<u>\$ 10,830</u>

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 equipment purchased by the relief association by executing a formal written agreement that enumerates the relief association’s proportional share of the cost of the equipment. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the equipment, in the event the equipment is ever sold.

Cause: Relief association officials did not provide a reason for why this occurred.

Effect: The failure to adequately secure the proportional share of ownership interest in the equipment for which relief association purchased equipment was installed places the relief association’s ownership interest at greater risk.

WILKINS TOWNSHIP FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the relief association officials execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the equipment is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$10,830. 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. As a result of our audit on May 5, 2021 relief association officials presented a formal written agreement that indicated the proportional share of the cost of the equipment.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

Finding No. 2 – Failure To Disclose Related Party Transactions

Condition: Relief association officials failed to disclose related party transactions to the relief association membership. The relief association did business with a local vendor owned by a relief association officer. During the current audit period, the relief association purchased \$8,010 on December 17, 2020, and subsequent to the period under review on January 6, 2021 the relief association purchased an additional \$415 in equipment from the vendor.

A related party transaction occurs when the relief association does business with a vendor that employs or is owned by a relief association officer or a member of an officer's immediate family. Such a transaction may provide a less than arm's length financial benefit to such officer or member of such officer's immediate family through a commission or a profit from a sale.

Criteria: Best business practices dictate that all potential related party transactions should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, all officers and/or members involved with a business that is party to the related party transaction should abstain from all votes concerning such transactions.

Cause: Relief association officials indicated that they were unaware that related party transactions should be disclosed to the membership.

Effect: The failure to properly disclose related party transactions may create potential conflicts of interest which could result in the relief association being involved in less than arm's length financial transactions.

WILKINS TOWNSHIP FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials take the actions necessary to eliminate the appearance of conflicts of interests. Actions should include, but are not limited to, written notification to the relief association membership for each related party transaction, and the abstention from decisions and voting rights by the relief association officials who are involved owners of businesses that have business dealings with the relief association. These actions should be documented in the relief association's minutes. Furthermore, the relief association officials should closely review all related party transactions to ensure that all transactions are at arm's length, i.e., the cost of the services rendered by the firm is competitive.

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.

Finding No. 3 – Failure To Maintain Minutes Of Meetings

Condition: The relief association did not maintain minutes of meetings as required by Act 118 and the relief association's bylaws. Meeting minutes were only maintained and provided for the months of September and October of 2020.

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.

In addition, the relief association's bylaws at Article II, Section 2 states, in part:

Secretary: Shall keep a written record of all Meetings of the W.T.F.R.A and sign all Orders/Warrants for the Organization.

Cause: Relief association officials indicated that they were unaware that maintaining minutes of meetings was required by Act 118 and the relief association's bylaws.

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

WILKINS TOWNSHIP FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the relief association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record 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.

WILKINS TOWNSHIP FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Wilkins Township Firemen's Relief Association Governing Body:

Mr. Paul Padula
President

Mr. Joshua Pasko
Secretary

Ms. Joyce Wagner
Treasurer

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

Ms. Rebecca Vargo
Secretary
Wilkins 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.