

COMPLIANCE AUDIT

Fairfield Hose Company Firefighters Relief Association of the Commonwealth of Pennsylvania Erie County For the Period January 1, 2013 to December 31, 2014

March 2016



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Jeffery Hawryliw, President
Fairfield Hose Company Firefighters Relief Association
Of the Commonwealth of Pennsylvania
Erie County

We have conducted a compliance audit of the Fairfield Hose Company Firefighters Relief Association of the Commonwealth of 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, 2013 to December 31, 2014.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the findings contained in our prior audit report.
2. To determine if the relief association received state aid 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 objectives identified above.

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 objectives. 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, 2013 to December 31, 2014:

- The relief association took appropriate corrective action to address the findings contained in our prior audit report.
- Because of the significance of the matters described in the findings below and discussed later in this report, the relief association did not, in all significant respects, expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

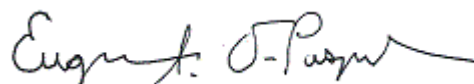
Finding No. 1 – Unsecured Loan

Finding No. 2 – Relief Association's Checking And Savings Accounts Inappropriately Registered Under Another Federal Tax Identification Number

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

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.



EUGENE A. DEPASQUALE
Auditor General

March 16, 2016

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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. The relief association's bylaws define the specific operational procedures by which the relief association conducts 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 the 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 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>2013</u>	<u>2014</u>
Harborcreek Township	Erie	\$35,077	\$33,245

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:

Fairfield Hose Company

FAIRFIELD HOSE COMPANY FIREFIGHTERS RELIEF ASSOCIATION OF THE
COMMONWEALTH OF PENNSYLVANIA
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has complied with the prior audit findings and recommendations, as follows:

- Failure To Comply With Terms Of Loan Agreement

By collecting \$4,518 of loan and interest payments due from the fire company.

- Undocumented Expenditures

By receiving reimbursement of \$535 from the affiliated fire company for the undocumented expenditures that were made in the prior audit period.

- Unsecured Loan And Inadequate Signature Authority

By receiving reimbursement of \$1,917 from the fire company for the unsecured loan and interest; however, a similar condition occurred during the current audit period as disclosed in Finding No. 1 of this report.

- Unauthorized Expenditure

By receiving reimbursement of \$1,000 from the affiliated fire company for the unauthorized expenditure made in the prior audit period.

- Failure To Maintain Minutes Of Meetings

By maintaining minutes of all relief association meetings held during the period.

- Inadequate Signatory Authority For The Disbursement Of Funds

By requiring more than one signature on all negotiable instruments.

FAIRFIELD HOSE COMPANY FIREFIGHTERS RELIEF ASSOCIATION OF THE
COMMONWEALTH OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unsecured Loan

Condition: On October 6, 2015, the relief association made an unsecured loan to the Fairfield Hose Company in the amount of \$185,000. The loan has a four percent interest rate with a 15 year amortization; however, the loan was not properly secured in accordance with Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) 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.

Cause: Relief association officials indicated that they were unaware that the loan to the fire company must be secured to ensure compliance with Act 118 provisions.

Effect: Failure to obtain adequate security for the loan places the investment 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 relief association officials and the fire company amend the written loan agreement to provide adequate security for the relief association's investment as required by Act 118 at 35 Pa.C.S. § 7416(c)(3). If such action is not taken, we recommend that the loan 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 on February 23, 2016 to the relief association's president who indicated that the relief association 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.

FAIRFIELD HOSE COMPANY FIREFIGHTERS RELIEF ASSOCIATION OF THE
COMMONWEALTH OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Relief Association Checking And Savings Accounts Inappropriately Registered Under Another Federal Tax Identification Number

Condition: As of December 31, 2014, the relief association held checking and savings accounts with a total cash value of \$146,618 which were inappropriately registered under another federal tax identification number rather than the present relief association's registered tax identification number. These checking and savings accounts represent 42 percent of the relief association's total assets.

Criteria: Prudent business practice dictates that the relief association maintain ownership of all investments as a means of safeguarding its assets from unauthorized use or disposition.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that the cash accounts were properly registered with the relief association's federal tax identification number.

Effect: As a result of the cash accounts being inappropriately registered under another entity's federal tax identification number, these relief association assets were not properly safeguarded. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that relief association officials secure ownership rights to all monetary assets. This requirement can be accomplished by ensuring that all cash accounts and investments are registered under the relief association's federal tax identification number. 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 on February 23, 2016 to the relief association's president who indicated that the relief association 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.

FAIRFIELD HOSE COMPANY FIREFIGHTERS RELIEF ASSOCIATION OF THE
COMMONWEALTH OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit period, this listing was incomplete and did not accurately identify all of the equipment owned by the relief association. There were six purchases totaling \$9,314 that were not properly accounted for on the relief association's equipment roster. Moreover, the relief association did not fill in the column for the cost of the items purchased.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

Cause: Relief association officials failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

FAIRFIELD HOSE COMPANY FIREFIGHTERS RELIEF ASSOCIATION OF THE
COMMONWEALTH OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated the relief association will take action to comply with the recommendation.

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

FAIRFIELD HOSE COMPANY FIREFIGHTERS RELIEF ASSOCIATION OF THE
COMMONWEALTH OF PENNSYLVANIA
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 1 and 2 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action will 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.

FAIRFIELD HOSE COMPANY FIREFIGHTERS RELIEF ASSOCIATION OF THE
COMMONWEALTH OF PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2014

Cash Balance:	\$	146,805
Fair Value of Investment Balance:	\$	200,138
Expenditures:		
Benefit Services:		
Insurance premiums	\$	<u>8,006</u>
Fire Services:		
Equipment purchased	\$	36,655
Equipment maintenance		8,231
Training expenses		<u>6,249</u>
Total Fire Services	\$	<u>51,135</u>
Administrative Services:		
Other administrative expenses		2,065
Bond premiums		<u>356</u>
Total Administrative Services	\$	<u>2,421</u>

FAIRFIELD HOSE COMPANY FIREFIGHTERS RELIEF ASSOCIATION OF THE
COMMONWEALTH OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Fairfield Hose Company Firefighters Relief Association of the Commonwealth of Pennsylvania
Governing Body:

Mr. Jeffrey Hawryliw
President

Ms. Christine Morealli
Vice President

Ms. Gina Morealli
Secretary

Mr. Alan Paulhamus
Treasurer

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

Mr. Dean Pepicello
Secretary
Harborcreek 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.