

COMPLIANCE AUDIT

Carnegie Volunteer Fire and Rescue Relief

Allegheny County, Pennsylvania
For the Period
January 1, 2018 to December 31, 2019

August 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
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www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Michael J. Clayton, President
Carnegie Volunteer Fire and Rescue Relief
Allegheny County

We have conducted a compliance audit of the Carnegie Volunteer Fire and Rescue Relief (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, 2019.

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 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 objectives 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 objectives. We believe that our audit provides a reasonable basis for our conclusions.

Due to a stay at home order issued by the Governor of the Commonwealth of Pennsylvania during the COVID-19 pandemic, we were unable to observe any of the relief association's equipment to verify its existence.

Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2019:

- 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 and the effects, if any, of the matter described in the preceding paragraph, the relief association did not, in all significant respects, comply 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, collectively as a whole. 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 – Inappropriate Ownership Of Rescue Vehicle

Finding No. 2 – Failure To Deposit State Aid

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.

July 15, 2020



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	4
Findings and Recommendations:	
Finding No. 1 – Inappropriate Ownership Of Rescue Vehicle	5
Finding No. 2 – Failure To Deposit State Aid	6
Potential Withhold of State Aid.....	8
Report Distribution List	9

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>2018</u>	<u>2019</u>
Carnegie Borough	Allegheny	\$34,905	\$37,798*
Pennsbury Village Borough	Allegheny	\$ 3,430	\$ 3,721*

* The 2019 state aid allocations received from Carnegie Borough and Pennsbury Village Borough were not deposited by the relief association as disclosed in Finding No. 2 in this report.

Based on the relief association's records, its total cash and investments as of December 31, 2019 were \$205,266, as illustrated below:

Cash	\$ 145,266
Fair Value of Investments	<u>60,000</u>
Total Cash and Investments	<u>\$ 205,266</u>

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2019 were \$62,161, 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>\$ 54,438</u>
Fire Services:	
Equipment purchased	<u>\$ 7,520</u>
Administrative Services:	
Other administrative expenses	<u>\$ 203</u>
Total Expenditures	<u>\$ 62,161</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 organization are separate, legal entities. The relief association is affiliated with the following fire service organization:

Carnegie Volunteer Fire and Rescue

CARNEGIE FIRE AND RESCUE RELIEF
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:

- Unsecured Loan And Failure To Comply With Terms Of Loan Agreement

By receiving reimbursement from the Surety (Fidelity) bond company for the unsecured loan which was repaid in the amount of \$35,000.

- 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.

- Undocumented Expenditures

By receiving reimbursement of \$71,300 from the Surety (Fidelity) bond company and \$1,626 from the affiliated fire company for the undocumented expenditures that were made in the prior audit period.

CARNEGIE FIRE AND RESCUE RELIEF
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inappropriate Ownership Of Rescue Vehicle

Condition: During a prior audit period, on August 19, 2010, the relief association purchased a 2011 Ford F-350 rescue vehicle, in the amount of \$60,055, to carry personnel and safeguard equipment; however, the title to the vehicle was inappropriately issued in the name of the fire company, and the title was never changed into the name of the relief association. The title remained unchanged during the current audit period ending December 31, 2019.

Criteria: Prudent business practice dictates that the relief association should maintain sole ownership of all equipment purchased by the relief association. As such, rescue vehicles purchased by the relief association are to be titled in the name of the relief association.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that the rescue vehicle purchased was titled in the name of the relief association.

Effect: As a result of the rescue vehicle being inappropriately titled in the name of the fire company, this relief association asset was 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 the rescue vehicle be titled in the name of the relief association. If such action is not taken, we recommend that the relief association be reimbursed \$60,055. 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: 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.

CARNEGIE FIRE AND RESCUE RELIEF
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Deposit State Aid

Condition: The relief association did not deposit the 2019 state aid distributed by Carnegie Borough and Pennsbury Village Borough, in the amounts of \$37,798 and \$3,721, respectively, into a relief association account. Although Carnegie Borough and Pennsbury Village Borough prepared and returned a Certification Form AG 385 for 2019 by the March 31 annual filing date in accordance with Act 205, Carnegie Borough and Pennsbury Village Borough did not receive the 2019 state aid allocations on account of the Order To Show Cause that was in place for the potential withhold findings from the relief association’s prior audit report. Upon compliance by the relief association, the foreign fire insurance tax allocations were distributed to the municipal treasurers on March 3, 2020, who forwarded the state aid to the relief association on April 27, 2020 and March 24, 2020, respectively, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205).

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that, upon receipt of its state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

Cause: Relief association officials failed to establish internal control procedures to ensure that all state aid received is deposited into a relief association account.

Effect: As a result of the state aid not being deposited, the relief association was unable to use the funds for general operating expenses or for investment purposes. In addition, the failure to deposit receipts in a timely manner can lead to a greater risk that funds could be lost or misappropriated.

CARNEGIE FIRE AND RESCUE RELIEF
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials immediately deposit the \$37,798 and \$3,721 state aid allocations it received from Carnegie Borough and Pennsbury Village Borough, respectively, and provide appropriate documentation. In addition, relief association officials should establish accounting and internal control procedures to ensure that all state aid is received in a timely manner and deposited into a relief association account. 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 and, as a result of our audit, relief officials provided documentation, on August 11, 2020, for the 2019 state aid allocations deposited into the relief association account on May 20, 2020.

Auditor’s Conclusion: We reviewed documentation verifying that the deposit of \$41,519 was received. Compliance for depositing state aid allocations during the next audit period will be subject to verification through our next audit.

CARNEGIE FIRE AND RESCUE RELIEF
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action may 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.

CARNEGIE FIRE AND RESCUE RELIEF
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Carnegie Volunteer Fire and Rescue Relief Governing Body:

Mr. Michael J. Clayton
President

Mr. Todd Scott
Vice President

Mr. Jason Bichler
Secretary

Mr. Robert H. Chapman, Jr.
Treasurer

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

Mr. Stephen Beuter
Secretary
Carnegie Borough

Ms. Rae Carol Wolff
Secretary
Pennsbury Village Borough

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.