

COMPLIANCE AUDIT

Middle Road Volunteer Fire Department Relief Association Allegheny County, Pennsylvania For the Period January 1, 2017 to December 31, 2019

July 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. John Hamilton, President
Middle Road Volunteer Fire
Department Relief Association
Allegheny County

We have conducted a compliance audit of the Middle Road Volunteer Fire Department 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, 2017 to December 31, 2019.

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.

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, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2017 to December 31, 2019, 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 – Inadequate Surety (Fidelity) Bond Coverage

Finding No. 2 – Relief Association Checking Account Inappropriately Registered Under Affiliated Fire Service Organization's Federal Tax Identification Number

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 16, 2020



EUGENE A. DEPASQUALE
Auditor General

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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:

Municipality	County	2017	2018	2019
Indiana Township	Allegheny	\$15,861	\$14,600	\$15,755

Based on the relief association’s records, its total cash as of December 31, 2019 was \$63,643, as illustrated below:

Cash	\$ 63,643
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Based on the relief association’s records, its total expenditures for the period January 1, 2017 to December 31, 2019 were \$38,148, 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	\$ 12,223
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Fire Services:

Equipment purchased	\$ 25,925
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Total Expenditures	\$ 38,148
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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:

Middle Road Volunteer Fire Department

¹ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

MIDDLE ROAD VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain adequate Surety (Fidelity) bond coverage on the association's disbursing officer, as required by Act 118. Specifically, the Surety (Fidelity) bond policy in effect, during and subsequent to the audit period, was issued jointly in the name of the fire company and the relief association and covered thirty individuals in total and did not specify which individuals were covered or whether the association's disbursing officer was covered. The insurance agent stated that the insurance company does not issue small bond policies so they combined the bond policies of both the fire company and relief association into one policy that provided \$100,000 of coverage.

Criteria: Section 7415(c)(4) of Act 118 states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Since the relief association and the fire company are separate and distinct legal entities, the relief association should maintain a Surety (Fidelity) bond solely in the name of the relief association to ensure that there is adequate protection of relief association assets.

Cause: Relief association officials indicated that they were unaware that the relief association's assets were not adequately protected by the joint bond with the fire company.

Effect: As a result of the disbursing officer of the relief association not being adequately bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials ensure that the disbursing officer is adequately covered by a faithful performance Surety (Fidelity) bond as required by Act 118. This requirement may be accomplished by obtaining a Surety (Fidelity) bond solely in the relief association's name. 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 indicated they will take action to comply with the recommendation.

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

MIDDLE ROAD VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Relief Association Checking Account Inappropriately Registered Under
Affiliated Fire Service Organization’s Federal Tax Identification Number**

Condition: As of December 31, 2019, the relief association held a money market account, with a total cost value of \$63,643 which was inappropriately registered under the fire company’s federal tax identification number rather than the relief association’s identification number. This account represents 100% percent of the relief association’s cash 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 investments purchased were registered with the relief association’s federal tax identification number.

Effect: As a result of the investments being inappropriately registered under another entity’s federal tax identification number, these relief association assets were not properly safeguarded.

Recommendation: We recommend that the relief association officials secure ownership rights to all monetary assets. This requirement can be accomplished by ensuring that all 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 and indicated they will take action to comply with the recommendation.

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

MIDDLE ROAD VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Middle Road Volunteer Fire Department Relief Association Governing Body:

Mr. John Hamilton
President

Mr. John Balish
Vice President

Mr. Robert Druga
Financial Secretary

Mr. Paul Penezic
Treasurer

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

Mr. Daniel L. Anderson
Secretary
Indiana 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.