

COMPLIANCE AUDIT

East End Volunteer Fire Department No. 1 Relief Association Mercer County, Pennsylvania For the Period January 1, 2020, to December 31, 2022

December 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Don Cubellis, President
East End Volunteer Fire Department
No. 1 Relief Association
Mercer County

We have conducted a compliance audit of the East End Volunteer Fire Department No. 1 Relief Association (relief association) for the period January 1, 2020, to December 31, 2022. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

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.

Based on our audit procedures, we conclude that, for the period January 1, 2020, to December 31, 2022:

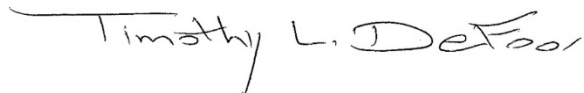
- The relief association took appropriate corrective action to address the findings contained in our prior audit report.
- The relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state 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 Minutes Of Meetings And Relief Association Bylaws

Finding No. 2 – Improper Equipment Donation Transaction

Finding No. 3 – Insufficient Surety (Fidelity) Bond Coverage

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.



Timothy L. DeFoor
Auditor General
November 21, 2023

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code¹, and the Volunteer Firefighters' Relief Association Act² ("VFRA Act"), 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 Law³ (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.

The VFRA Act 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, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, 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 relief association officers therefore have a responsibility to the public to conduct the relief association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all relief association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the relief 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.

¹ 72 P.S. § 403 (as last amended by Act 44 of 2017).

² 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

³ 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipalities:

| <u>Municipality</u> | <u>County</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|----------------------------|---------------|-------------|-------------|-------------|
| Coolspring Township | Mercer | \$13,126 | \$11,986 | \$14,074 |
| East Lackawannock Township | Mercer | \$ 6,826 | \$ 6,095 | \$ 7,360 |
| Findley Township | Mercer | \$11,443 | \$10,278 | \$12,352 |
| Mercer Borough | Mercer | \$ 8,918 | \$ 8,016 | \$ 9,729 |

Based on the relief association’s records, its total cash as of December 31, 2022, was \$170,154, as illustrated below:

| | |
|------|-------------------|
| Cash | <u>\$ 170,154</u> |
|------|-------------------|

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$88,009, 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.⁴ **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>\$ 1,699</u> |
| Fire Services: | |
| Equipment purchased | \$ 73,966 |
| Equipment maintenance | 11,989 |
| Training expenses | <u>155</u> |
| Total Fire Services | <u>\$ 86,110</u> |
| Administrative Services: | |
| Bond premiums | <u>\$ 200</u> |
| Total Expenditures | <u><u>\$ 88,009</u></u> |

⁴ 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:

East End Volunteer Fire Department No. 1

EAST END VOLUNTEER FIRE DEPARTMENT NO. 1 RELIEF ASSOCIATION
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:

- Undocumented Expenditures

By providing adequate documentation to evidence the propriety of one of the undocumented expenditures that was made in the prior audit period and by receiving reimbursement of \$25,499 from the affiliated fire company for the remaining undocumented expenditures that were made in the prior audit period.

- Failure to Disclose Related Party Transaction

By discontinuing business with the vendor owned by the former Treasurer of the relief association's immediate family member and by electing the current Treasurer of the relief association.

EAST END VOLUNTEER FIRE DEPARTMENT NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Minutes Of Meetings And Relief Association Bylaws

Condition: The relief association failed to maintain detailed minutes of meetings as required by the VFRA Act and the relief association’s bylaws. Specifically, the relief association’s minutes did not address all financial-related transactions that occurred during the audit period and the election of officers was not documented. In addition, meetings were only held in 10 months during calendar year 2020, 11 months during calendar year 2021, and 11 months in calendar year 2022. Furthermore, the meeting minutes were not signed and dated by the recording officer. The existing bylaws of the relief association contains language to conduct business pertaining to the disbursement and investment of funds that is based on Act 84 of June 11, 1968. The relief association has not updated the bylaws to govern their organization to meet the requirements set forth in the VFRA Act (Act 118 of 2010 and Act 91 of 2020).

Criteria: Section 7415(a) of the VFRA Act 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.

The relief association’s bylaws at Article 2, Section 1 states:

Regular meetings of this association shall be held on the second Wednesday of each month immediately following the regular meeting of the East End Volunteer Fire Department No.1.

Additionally, the relief association’s bylaws at Article 6, Section 1 states:

It shall be the duty of the secretary to keep accurate minutes of the proceedings at association meetings both regular and special, and post all minutes of the previous regular meeting not less than one week prior to the next regular meeting.

Furthermore, the relief association’s bylaws at Article 11, Section 1 states, in part:

Funds of this association may be invested in any security authorized by the provisions of Section 6 (c) of Act 84.

EAST END VOLUNTEER FIRE DEPARTMENT NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: The relief association officials indicated that meetings were not held because a quorum was not present however they were unaware that it needed to be documented. Additionally, a handwritten treasurer report was prepared and approved at each meeting however it was mishandled and not kept with the approved minutes. In addition, the relief association officials did not provide a reason why the Secretary of the Relief Association did not sign the meeting minutes or why the bylaws were not updated to meet the requirements of the VFRA Act.

Effect: Without holding regular meetings and maintaining detailed minutes of meetings that are signed and dated, evidence that relief association business was presented before the membership for approval does not exist. As a result of the relief association not updating the bylaws to meet the appropriate requirements, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials hold all required meetings and maintain detailed minutes of meetings as required by the VFRA Act and the relief association's bylaws, evidencing the discussion and approval of all financial-related business conducted by the relief association. The minutes should include an adequate record of all financial-related business conducted by the relief association. We also recommend that the relief association officials ensure that all meeting minutes are signed and dated by the Secretary of the Relief Association to ensure the validity of the meeting minutes. In addition, we recommend that the relief association officials remove the language referring to Act 84 by updating the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act (Act 118 of 2010 and Act 91 of 2020). 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.

EAST END VOLUNTEER FIRE DEPARTMENT NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Improper Equipment Donation Transaction

Condition: The relief association improperly donated a 1986 Mack Ariel Truck with an unknown scrap value to the local salvage company at an unknown date. Although an attempt was made on the behalf of the relief association to determine the salvage value of the vehicle, no documentation was provided for the audit. Furthermore, relief association officials noted on the equipment roster a disposition date of April 1, 2022, however no documentation was provided to support the date of the transaction and the minutes of meetings did not provide detail showing that the transaction was approved by the relief association membership (Refer to Finding No. 1 for additional information).

Criteria: Section 7418(a) of the VFRA Act 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.

In addition, Section 7416(f) of the VFRA Act states:

Funds of any volunteer firefighters' relief association may be spent:

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

Furthermore, the relief association is not authorized to act as a donating agent for relief association-owned equipment that retains an appreciable value that can benefit the relief association in meeting its purpose under the VFRA Act. However, a relief association may donate relief association-owned equipment that is no longer in service to another relief association, but not another organization. Prudent business practice dictates that if such a donation of equipment occurs, an agreement documenting the transfer should be completed between the participating relief associations.

Cause: The relief association officials stated the vehicle was inoperable and the quote for towing the vehicle was more than what the vehicle was worth, so the vehicle was given to an unknown salvage company as consideration for the cost of the towing of the vehicle.

EAST END VOLUNTEER FIRE DEPARTMENT NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: As a result of the improper equipment donation transaction, relief association funds were not available for authorized purposes.

Recommendation: We recommend that the relief association provide appropriate supporting documentation of the salvage value of the vehicle and be reimbursed the determined value of the improper equipment donation. We further recommend that the relief association officials discontinue the practice of donating relief association-owned equipment to any organization other than to another relief association. We also recommend that the relief association officials maintain supporting documentation, such as a donation agreement, for all future donations. 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.

Finding No. 3 – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association’s authorized disbursing officer. The relief association’s Surety (Fidelity) bond coverage amount was \$150,000; however, as of December 31, 2022, the relief association’s cash assets totaled \$170,154.

Criteria: Section 7415(c)(4) of the VFRA Act 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.

Cause: Relief association officials failed to monitor the relief association’s cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association’s authorized disbursing officer was in compliance with the VFRA Act provisions and did not provide a reason why this occurred.

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

EAST END VOLUNTEER FIRE DEPARTMENT NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by the VFRA Act. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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.

EAST END VOLUNTEER FIRE DEPARTMENT NO. 1 RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

East End Volunteer Fire Department No. 1 Relief Association Governing Body:

Mr. Don Cubellis
President

Mr. Bill Redmond
Vice President

Ms. Amy Urey
Secretary

Mr. Colt Garing
Treasurer

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

Ms. Terri Ligo
Secretary
Coolspring Township

Ms. Deborah Fedorchak
Secretary
East Lackawannock Township

Ms. Karen Shipton
Secretary
Findley Township

Ms. Debbie Sarvis
Secretary
Mercer Borough

EAST END VOLUNTEER FIRE DEPARTMENT NO. 1 RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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