

# COMPLIANCE AUDIT

---

## Arnold Volunteer Fire Department Relief Association

Westmoreland County, Pennsylvania

For the Period

January 1, 2018 to December 31, 2020

---

March 2022



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General

---



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

**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. Jack Linderman, President  
Arnold Volunteer Fire Department  
Relief Association  
Westmoreland County

We have conducted a compliance audit of the Arnold Volunteer Fire Department Relief Association (relief association) for the period January 1, 2018 to December 31, 2020. 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 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.

Based on our audit procedures, we conclude that, 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 – Unauthorized Expenditures

Finding No. 2 – Untimely Receipt And Deposit Of State Aid

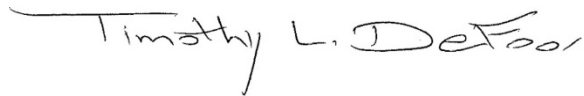
Finding No. 3 – Failure To Maintain A Complete And Accurate Membership Roster

Finding No. 4 – Inadequate Relief Association Bylaws And Failure To Adhere To Relief Association Bylaws

Finding No. 5 – Inadequate Financial Record-Keeping System

We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor  
Auditor General  
February 28, 2022

## CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Unauthorized Expenditures.....	5
Finding No. 2 – Untimely Receipt And Deposit Of State Aid.....	6
Finding No. 3 – Failure To Maintain A Complete And Accurate Membership Roster.....	7
Finding No. 4 – Inadequate Relief Association Bylaws And Failure To Adhere To Relief Association Bylaws.....	8
Finding No. 5 – Inadequate Financial Record-Keeping System.....	9
Report Distribution List.....	11

## BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code<sup>1</sup>, and the Volunteer Firefighters' Relief Association Act<sup>2</sup> ("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 Law<sup>3</sup> (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 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.

---

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

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

<sup>3</sup> 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Arnold City	Westmoreland	\$17,163	\$18,474*	\$18,792

\* The 2019 state aid allocation received from Arnold City was not deposited by the relief association until October 6, 2020 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, 2020 were \$625,648, as illustrated below:

Cash	\$ 42,768
Fair Value of Investments	<u>582,880</u>
Total Cash and Investments	<u>\$ 625,648</u>

## BACKGROUND – (Continued)

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$94,017, 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.<sup>4</sup> **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	\$	29,154
Death benefits		17,150
Total Benefit Services	\$	<u>46,304</u>

#### Fire Services:

Equipment purchased	\$	13,829
Equipment maintenance		13,642
Training expenses		4,044
Total Fire Services	\$	<u>31,515</u>

#### Administrative Services:

Officer compensation	\$	4,000
Other administrative expenses		5,164
Bond premiums		834
Total Administrative Services	\$	<u>9,998</u>

#### Other Expenditures:

Miscellaneous*	\$	1,550
Unauthorized expenditures		4,650
Total Other Expenditures	\$	<u>6,200</u>

Total Expenditures	\$	<u>94,017</u>
--------------------	----	---------------

\* The miscellaneous expenditure represents a transfer between the cash accounts.

---

<sup>4</sup> 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:

Arnold Engine Company No. 2

Citizens Volunteer Fire Company No. 1



ARNOLD VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Unauthorized Expenditures**

**Condition:** The relief association expended funds for the following items during the current audit period that are not authorized by the VFRA Act:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
06/04/2018	1006	Early death benefit (personal loan)	\$ 1,550
07/05/2018	1007	Early death benefit (personal loan)	1,550
12/31/2018	1008	Early death benefit (personal loan)	1,550
Total			<u>\$ 4,650</u>

**Criteria:** Section 7416(f) of the VFRA Act states:

The funds of any volunteer firefighters’ relief association may be spent:

- (3) To maintain a beneficiary or death benefit fund and to pay a sum certain from that fund to the beneficiary of a participant in that fund upon death. If a beneficiary is not designated or a designated one has predeceased the participant, the sum certain shall be paid to the estate of the participant.

Costs associated with the payment of what the relief association called early death benefits do not qualify as authorized volunteer firefighters’ relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act. The early death benefits were paid to members prior to their death and are therefore personal loans because death benefits should not be made prior to death and individuals would no longer be eligible if they are not members of the relief association on the date of death.

**Cause:** Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by the VFRA Act.

**Effect:** As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by the VFRA Act.

**Recommendation:** We recommend that the relief association be reimbursed \$4,650 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of the VFRA Act to aid them in determining the propriety of future expenditures. Furthermore, if action is not taken to comply, a potential withhold of state aid may be issued in the future. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

ARNOLD VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

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. 2 – Untimely Receipt And Deposit Of State Aid**

Condition: Although Arnold City prepared and returned a Certification Form AG 385 for 2019 by the March 31 annual filing date in accordance with Act 205, the city did not distribute the 2019 state aid to the relief association in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 16, 2019, who forwarded this state aid to the relief association on September 11, 2020, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). The relief association did not deposit the 2019 state aid allocation it received from Arnold City, in the amount of \$18,474, until October 6, 2020. In addition, since there was no documentation indicating that the relief association attempted to retrieve the funds, the relief association did not ensure the funds were received and deposited timely.

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 establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: The relief association officials stated that the new city officials were unaware that the state aid allocation was to be distributed to the relief association but did not provide a reason for not inquiring about the state aid or depositing the state aid in a timely manner upon receipt.

ARNOLD VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely receipt and deposit of all future income received. 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 – Failure To Maintain A Complete And Accurate Membership Roster**

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association’s membership, as identified by criteria set forth in the relief association’s bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members’ mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member’s resignation or death.

Cause: Relief association officials indicated that they were unaware that they should maintain a comprehensive roster of relief association members.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

ARNOLD VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Recommendation: We recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association’s membership. For additional 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. 4 – Inadequate Relief Association Bylaws And Failure To Adhere To Relief Association Bylaws**

Condition: The existing bylaws of the relief association do not clearly address all of the provisions required by Section 7415(c) of the VFRA Act. Specifically, the bylaws do not address the requirement that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

In addition, the relief association officials did not adhere to a provision in the relief association’s bylaws. Specifically, the relief association did not abide by their current death benefit offered to members. During the current audit period, the relief association paid \$2,450 in the form of a death benefit.

Criteria: Section 7415(c) of the VFRA Act states that the relief association’s bylaws shall:

- (3) Require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

The relief association’s bylaws at Article V, Section 6 states:

It is agreed all financial business and withdrawals will require the signature of two officers of the Association.

In addition, the relief association’s bylaws at Article X, Section 7 states, in part:

All members in good standing of the Association shall be paid a sum of two thousand dollars (\$2,000.00) in the form of a death benefit.

ARNOLD VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

Furthermore, prudent business practice dictates that the relief association should adhere to all provisions stipulated in the relief association’s bylaws to ensure that the relief association conducts its affairs with proper authorization.

Cause: Relief association officials indicated that they were unaware of the bylaw provisions and guidelines established by the relief association. The relief association officials did not provide a reason for why the death benefit was not updated.

Effect: As a result of the relief association not following the mandatory provisions stipulated in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act and properly authorize the operating procedures of the relief association. We also recommend that the relief association officials establish guidelines and procedures to meet the provisions contained in the bylaws in order to assure that the association conducts its affairs with proper authorization. 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.

**Finding No. 5 – Inadequate Financial Record-Keeping System**

Condition: The relief association’s financial record-keeping system did not establish adequate accounting procedures to allow the membership to effectively monitor the relief association’s financial operations. The following are the noted deficiencies:

- A journal was not maintained to record the receipts and disbursements of the relief association.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Documentation to support various expenditures was not available for examination at the time of the audit. (Finding No. 1)

ARNOLD VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 5 – (Continued)**

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

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it 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, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials indicated that they were unaware of their various record-keeping responsibilities.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We recommend that the relief association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations. 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.

ARNOLD 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

**Mr. Thomas Cook**  
Acting State Fire Commissioner

Arnold Volunteer Fire Department Relief Association Governing Body:

**Mr. Jack Linderman**  
President

**Ms. Kimberly Van Tine**  
Secretary

**Mr. Anthony Green**  
Treasurer

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

**Mr. Mario Bellavia**  
City Clerk  
Arnold City

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).