

# COMPLIANCE AUDIT

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## Cherry Tree Volunteer Fire Company Relief Association of Cherry Tree, Pennsylvania Indiana County For the Period January 1, 2016 to December 31, 2017

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January 2019



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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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Mr. Ronald Fox, President  
Cherry Tree Volunteer Fire Company  
Relief Association of Cherry Tree,  
Pennsylvania  
Indiana County

We have conducted a compliance audit of the Cherry Tree Volunteer Fire Company Relief Association of Cherry Tree, 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, 2016 to December 31, 2017.

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 required to be and was not 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, because of the significance of a matter described in the findings below and discussed later in this report, 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, for the period January 1, 2016 to December 31, 2017. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Untimely Receipt And Deposit Of State Aid

Finding No. 2 – Inappropriate Ownership Of Rescue Vehicle

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.

January 11, 2019



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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2016</u>	<u>2017</u>
Burnside Township	Clearfield	\$ 1,794	\$ 1,802
Cherry Tree Borough	Indiana	\$ 1,434	\$ 1,307 *
Montgomery Township	Indiana	\$ 2,602	\$ 2,601

\* The 2017 state aid allocation received from Cherry Tree Borough was not deposited by the relief association until November 28, 2018 as disclosed in Finding No. 1 in this report.

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:

Cherry Tree Volunteer Fire Company of Cherry Tree, Pennsylvania

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF  
CHERRY TREE, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Untimely Receipt And Deposit Of State Aid**

Condition: The relief association did not deposit the 2017 state aid allocation it received from Cherry Tree Borough in the amount of \$1,307, until November 28, 2018. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 25, 2017; however, the municipal official failed to forward the state aid allocation to the relief association until December 31, 2017, 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). In addition, the state aid allocation was erroneously deposited into the affiliated fire company’s account. Therefore, the relief association did not ensure the funds were received and deposited timely into a relief association account. As a result of our audit, on November 28, 2018, the relief association deposited \$1,307 into a relief association account.

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: Relief association officials failed to establish internal control procedures to ensure that all income due the relief association was received, recorded and deposited into a relief association account in a timely manner.

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.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF  
CHERRY TREE, PENNSYLVANIA  
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 – Inappropriate Ownership Of Rescue Vehicle**

Condition: On December 14, 2014, the relief association and the affiliated fire company paid off the balance of the loan on a rescue vehicle purchased to carry personnel and safeguard equipment. On January 3, 2015, an agreement was drafted to assign 100% ownership to the relief association; however, the title to the vehicle was inappropriately issued in the name of the fire company.

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 \$30,421. 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.



CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF  
CHERRY TREE, PENNSYLVANIA  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 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.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF  
CHERRY TREE, PENNSYLVANIA  
SUPPLEMENTARY FINANCIAL INFORMATION  
AS OF DECEMBER 31, 2017

Cash	<u>\$ 5,296</u>
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CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF  
CHERRY TREE, PENNSYLVANIA  
SUMMARY OF EXPENDITURES  
FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:

Insurance premiums	\$	<u>4,772</u>
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Fire Services:

Equipment purchased	\$	1,332
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Equipment maintenance		1,829
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Training expenses		<u>1,780</u>
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Total Fire Services	\$	<u>4,941</u>
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Administrative Services:

Bond premiums	\$	<u>250</u>
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Total Expenditures	\$	<u><u>9,963</u></u>
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CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF  
CHERRY TREE, PENNSYLVANIA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Cherry Tree Volunteer Fire Company Relief Association of Cherry Tree, Pennsylvania  
Governing Body:

**Mr. Ronald Fox**  
President

**Mr. George Bates**  
Treasurer

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

**Ms. Diana L. Rorabaugh**  
Secretary  
Burnside Township

**Ms. Lisa Movinsky**  
Secretary  
Cherry Tree Borough

**Ms. Paula Burba**  
Secretary  
Montgomery Township

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).