

COMPLIANCE AUDIT

Clarion Firemen's Relief Association

Clarion 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



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Timothy Magrini, President
Clarion Firemen's Relief Association
Clarion County

We have conducted a compliance audit of the Clarion Firemen's 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 objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding 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.

We were not able to obtain an independent confirmation of a portion of the investment balance directly from the financial institutions. Therefore, while the relief association provided copies of investment statements that indicated that, as of December 31, 2020, the relief association had an investment balance with a fair value of \$372,452, we were not able to verify a portion of this investment balance.

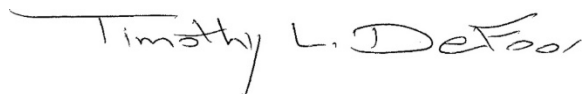
Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2020:

- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this report.
- Except for the effects, if any, of the matter described in the preceding paragraph, 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 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditure

Finding No. 2 – Duplicate Donation Payment

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.



Timothy L. DeFoor
Auditor General
February 16, 2022

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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 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.

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>2018</u>	<u>2019</u>	<u>2020</u>
Clarion Borough	Clarion	\$18,365	\$20,253	\$20,572
Clarion Township	Clarion	\$ 5,101	\$ 5,496	\$ 5,593
Highland Township	Clarion	\$ 1,487	\$ 1,574	\$ 1,589
Monroe Township	Clarion	\$ 4,572	\$ 4,807	\$ 4,764

Based on the relief association's records, its total cash and investments as of December 31, 2020 were \$538,313, as illustrated below:

Cash	\$ 165,861
Fair Value of Investments	<u>372,452</u>
Total Cash and Investments	<u><u>\$ 538,313</u></u>

BACKGROUND – (Continued)

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$189,848, 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	\$ 29,008
Death benefits	6,000
Total Benefit Services	<u>\$ 35,008</u>

Fire Services:

Equipment purchased	\$ 100,884
Equipment maintenance	2,768
Total Fire Services	<u>\$ 103,652</u>

Administrative Services:

Officer compensation	\$ 1,800
Other administrative expenses *	19,188
Bond premiums	200
Total Administrative Services	<u>\$ 21,188</u>

Total Investments Purchased	<u>\$ 30,000</u>
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Total Expenditures	<u><u>\$ 189,848</u></u>
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*A majority of the other administrative expenses represent \$9,380 in erroneous reimbursements to the affiliated fire company for a prior audit finding and observation and \$8,950 for an erroneous deposit to the relief association that was reimbursed back to the affiliated fire company.

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:

Clarion Fire and Hose Company No. 1

⁴ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

CLARION FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with the following prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Unauthorized Expenditure

Although the relief association received reimbursement of \$7,380 from the affiliated fire company for the unauthorized expenditure that was made in the prior audit period, the relief association again expended funds in the current audit period that were not authorized by the VFRA Act as further disclosed in Finding No. 1 of this report.

We are concerned by the relief association's failure to correct this previously reported audit finding. The relief association management should strive to implement the recommendations and corrective actions noted in this audit report.

CLARION FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditure

Condition: In the prior audit period, the relief association expended \$7,380 for the affiliated fire company's commercial insurance policy premiums that are not authorized by the VFRA Act. In the current audit period, on August 22, 2018, the relief association was reimbursed for the unauthorized expenditure. However, on November 5, 2018, the relief association reversed the prior reimbursement by paying the affiliated fire company \$7,380, which represents an unauthorized expenditure.

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

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.
- (2) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of the member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.
- (8) To contribute to or to purchase contracts of insurance which will contribute to the cost of rehabilitating and retraining volunteer firefighters who, by reason of their participation in the fire service, have suffered a major impairment of the ability to continue their vocation.
- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

CLARION FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Costs associated with the fire company commercial insurance policy premiums do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under the VFRA Act.

Cause: The relief association officials did not provide a reason for why this occurred despite the relief association being notified of this condition during our prior audit.

Effect: As a result of this improper expenditure, 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 \$7,380 for the unauthorized expenditure 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. 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$7,380 for the unauthorized expenditures on March 2, 2022.

Auditor's Conclusion: We reviewed documentation verifying the reimbursement of \$7,380 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Duplicate Donation Payment

Condition: As cited as a verbal observation in our prior audit period, the relief association made a duplicate discretionary benefit donation payment to the affiliated fire company in the amount of \$2,000. In the current audit period, on August 20, 2018, the affiliated fire company reimbursed the relief association for this duplicate payment. However, on November 5, 2018, the relief association erroneously reimbursed the affiliated fire company for this duplicate payment, thus negating the satisfaction of the verbal recommendation from the prior audit period. As such, the second payment is again considered an unauthorized disbursement because it was a duplicate payment for a discretionary benefit and no goods or services were received for the payment.

CLARION FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payments of this nature and to ensure duplicate payments are recouped.

Cause: The relief association officials did not provide a reason for why this occurred despite the relief association being notified of this condition during our prior audit.

Effect: As a result of failing to retain the reimbursement, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We again recommend that the relief association be reimbursed \$2,000 for the erroneous duplicate payment. The relief association officials should consider contacting the fire company to recover the duplicate payment. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association expenditures. 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$2,000 for the duplicate donation payment on March 2, 2022.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$2,000 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

CLARION FIREMEN'S 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

Clarion Firemen's Relief Association Governing Body:

Mr. Timothy Magrini
President

Mr. Jeffrey L. Smathers
Vice President

Mr. James Thornton
Secretary

Mr. Eric L. Funk
Treasurer

CLARION FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Ms. Linda M. LaVan-Preston
Secretary
Clarion Borough

Ms. Karen Wilson
Secretary
Clarion Township

Ms. Nancy Kadunce
Secretary
Highland Township

Ms. Amanda Anger
Secretary
Monroe 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.