

COMPLIANCE AUDIT

Cochranton Volunteer Fire Department's Relief Association Crawford County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

September 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Shane Neff, President
Cochranton Volunteer Fire Department's
Relief Association
Crawford County

We have conducted a compliance audit of the Cochranton Volunteer Fire Department's 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, 2018 to December 31, 2020.

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, 2018 to December 31, 2020:

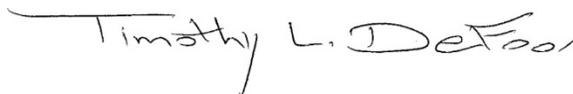
- The relief association took appropriate corrective action to address two of the three findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this 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 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Finding No. 2 – Failure To Adhere To Relief Association Bylaws

Finding No. 3 – Untimely Receipt And Deposit Of State Aid

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.



August 18, 2021

Timothy L. DeFoor
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>2018</u>	<u>2019</u>	<u>2020</u>
Cochranton Borough	Crawford	\$4,372	\$4,761	\$4,836
East Fairfield Township	Crawford	\$4,200	\$4,563	\$4,618**
Fairfield Township	Crawford	\$4,717*	\$5,074*	\$5,110
Wayne Township	Crawford	\$7,015	\$7,663	\$7,734
French Creek Township	Mercer	\$3,437	\$3,810	\$3,882

* The 2018 and 2019 state aid allocations received from Fairfield Township were not deposited by the relief association until January 11, 2019 and February 10, 2020, respectively, as disclosed in Finding No. 3 in this report.

** The 2020 state aid allocation received from East Fairfield Township was not deposited by the relief association until March 29, 2021 as disclosed in Finding No. 3 in this report.

Based on the relief association’s records, its total cash and investments as of December 31, 2020 were \$142,342, as illustrated below:

Cash	\$ 30,437
Fair Value of Investments	<u>111,905</u>
Total Cash and Investments	<u><u>\$ 142,342</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 \$216,369, 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	\$ 26,903
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Fire Services:

Equipment purchased	\$ 163,702
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Equipment maintenance	5,501
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Training expenses	1,035
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Total Fire Services	<u>\$ 170,238</u>
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Administrative Services:

Officer compensation	\$ 3,000
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Other administrative expenses	226
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Bond premiums	702
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Total Administrative Services	<u>\$ 3,928</u>
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Other Expenditures:

Miscellaneous*	\$ 13,500
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Unauthorized expenditures	1,800
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Total Other Expenditures	<u>\$ 15,300</u>
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Total Expenditures	<u><u>\$ 216,369</u></u>
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*In 2018, the relief association made two erroneous deposits (\$6,750 each) totaling \$13,500 of funds that were intended for the affiliated fire service organization. However, on November 7, 2018, the \$13,500 was reimbursed back to the affiliated fire service organization.

¹ 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:

Cochranton Volunteer Fire Department

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has complied with two of the three prior audit findings and recommendations, as follows:

- Undocumented Expenditures

By receiving reimbursement of \$7,556 from the affiliated fire company for some of the undocumented expenditures and by providing adequate documentation of evidence for the propriety of the remaining \$82,412 of undocumented expenditures that were made in the prior audit period.

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Unauthorized Expenditures

The relief association failed to receive reimbursement of \$1,299 from the affiliated fire company for the unauthorized expenditures that were made in the prior audit period. Additionally, the relief failed to receive reimbursement of \$140 for sales tax paid on expenditures made in the prior audit period. In addition, the relief association again expended funds, amounting to \$1,800, in the current audit period that were not authorized by Act 118 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 association management should strive to implement the recommendation and corrective action noted in this audit report.

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: The relief association expended funds for the following items during the prior audit period that were not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
01/27/15	879	Payment of sales tax	\$ 22
06/28/15	922	Payment of sales tax	118
01/05/16	944	Administrative expense (salary)	600
01/05/16	946	Administrative expense (salary)	600
07/31/17	988	Fire company maintenance expense	99
Total			<u>\$ 1,439</u>

The relief association expended funds for the following items during the current audit period that are not authorized by Act 118

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/07/2019	1011	Administrative expense (salary)	\$ 600
01/07/2020	118	Administrative expense (salary)	600
12/03/2020	313	Administrative expense (salary)	\$ 600
Total			<u>\$ 1,800</u>

During the prior and current audit periods, the relief association expended a total of \$3,239 on items that are not authorized by Act 118.

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: Section 7416(f) of Act 118 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.

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

Costs associated with payment of sales tax, salary to a non-relief association officer, and maintenance on a fire company owned vehicle do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials did not provide a reason for why the prior audit unauthorized expenditures were not reimbursed. Further, relief officials were unaware that payment of salaries to non-relief association officials were not authorized under Act 118 despite the relief association being notified of that during the prior audit.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118.

Recommendation: We recommend that the relief association be reimbursed \$3,239 for the prior audit period unauthorized expenditures (\$1,439) and the current audit period unauthorized expenditures (\$1,800), and that relief association officials become familiar with Section 7416(f) of Act 118 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 indicated they will take action to comply with the recommendation.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Adhere To Relief Association Bylaws

Condition: The relief association did not adhere to the following relief association bylaw stipulation:

- Paying officer's salaries only after the officers that are to receive this benefit and the amount of the benefit to be disbursed are set at a meeting prior to the year in which the salaries are to be paid.

Although the salaries paid to relief association officers were authorized by Act 118 in the prior and current audit periods and described in the relief association's bylaws, the types, amounts and criteria to be met before receiving the benefits were not discussed and approved in the relief association's meeting minutes as required by the bylaws.

Criteria: The relief association's bylaws stipulate the following:

- Article III, Section 3: The salary paid the secretary will be determined by the body at the regular meeting prior to the regular meeting at which elections are to be held.
- Amendment 15: Salaries for the offices of Secretary and Treasurer shall be determined on a yearly basis, by the body of the Relief Association. The Treasurer's salary shall be equal to the salary which has been determined for the Secretary, in the month of December of the year previous. In order to qualify.....the officer will forfeit his/her salary for the previous year.

Furthermore, prudent business practice dictates that when a relief association offers death benefits, disability benefits, officer compensation, or any other type of discretionary benefit provided by Act 118, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal relief association policy, and documented in the relief association's official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well as the criteria to be met in order to receive the benefits. 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 appeared to be unaware that they needed to authorize which officers were to receive payments and the amounts that were to be paid to the officers in the relief association's meeting minutes.

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 the bylaws governing their organization and 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. In addition, the relief association officials should periodically review its bylaws to determine if updates need to be made and the relief association should formally define and document the discretionary benefit criteria in the relief association bylaws and meeting minutes. The information should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the criteria to be met before receipt of the benefit. Furthermore, all payments of discretionary benefits should be in accordance with provisions of Act 118 and the relief association bylaws. 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 – Untimely Receipt And Deposit Of State Aid

Condition: The relief association did not deposit the 2018 and 2019 state aid allocations it received from Fairfield Township in the amounts of \$4,717 and \$5,074, respectively, until January 11, 2019 and February 10, 2020, respectively. The foreign fire insurance tax allocations were distributed to the municipal treasurer on September 17, 2018 and September 16, 2019, respectively. However, municipal officials failed to forward the state aid allocations to the relief association until December 29, 2018 and December 27, 2019, respectively, 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, upon receipt of the state aid allocations, the relief association did not ensure the funds were deposited timely into a relief association account.

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Also, the relief association did not deposit the 2020 state aid allocation it received from East Fairfield Township, in the amount of \$4,618 until March 29, 2021. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 22, 2020; however, municipal officials failed to forward the state aid allocation to the relief association until March 8, 2021, 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). Therefore, the relief association did not document that steps were taken to timely receive and deposit the funds 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: The relief association official stated he contacted the municipalities regarding the state aid allocations; however, documentation was not maintained for when they were contacted.

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.

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and has already deposited the state aid.

Auditor's Conclusion: We reviewed documentation verifying that the state aid was received and deposited. Compliance for timely receipt and deposit of state aid during the next audit period will be subject to verification through our next audit.

COCHRANTON VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Cochranton Volunteer Fire Department's Relief Association Governing Body:

Mr. Shane Neff
President

Mr. Jason Saeger
Vice President

Ms. Debbie Taylor
Secretary

Mr. Eric Danielson
Treasurer

COCHRANTON VOLUNTEER FIRE DEPARTMENT'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. Susan Armburger
Secretary
Cochranton Borough

Ms. Lori Guianen
Secretary
East Fairfield Township

Ms. Amanda Allen
Secretary
Fairfield Township

Ms. Mary Kennedy
Secretary
Wayne Township

Ms. Gretchen Boughner
Secretary
French Creek Township

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