

COMPLIANCE AUDIT

Relief Association of Conneaut Lake Borough and Sadsbury Township of Pennsylvania Crawford County For the Period January 1, 2017 to December 31, 2019

January 2021



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Timothy Latta, President
Relief Association of Conneaut Lake Borough
and Sadsbury Township of Pennsylvania
Crawford County

We have conducted a compliance audit of the Relief Association of Conneaut Lake Borough and Sadsbury Township of 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, 2017 to December 31, 2019.

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, 2017 to December 31, 2019:

- The relief association took appropriate corrective action to address three of the four 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.
- Because of the significance of the matter described in the finding 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. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding – Noncompliance With Prior Audit Recommendation – Unsecured Loan

The contents of this report were discussed with the management of the relief association and, where appropriate, their response has 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.

December 15, 2020



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.

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

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Conneaut Lake Borough	Crawford	\$ 3,112	\$2,833	\$2,949
Sadsbury Township	Crawford	\$10,004	\$9,142	\$9,796

BACKGROUND – (Continued)

Based on the relief association's records, its total cash and investments as of December 31, 2019 were \$69,796, as illustrated below:

Cash	\$ 12,607
Book Value of Other Investments	<u>57,189</u>
Total Cash and Investments	<u>\$ 69,796</u>

Based on the relief association's records, its total expenditures for the period January 1, 2017 to December 31, 2019 were \$132,461, 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:

Insurance premiums	<u>\$ 14,314</u>
Fire Services:	
Equipment purchased	\$ 72,881
Equipment maintenance	21,080
Training expenses	2,591
Fire Prevention materials	<u>150</u>
Total Fire Services	<u>\$ 96,702</u>
Administrative Services:	
Other administrative expenses	\$ 8,380
Bond premiums	<u>663</u>
Total Administrative Services	<u>\$ 9,043</u>
Other Expenditures:	
Fundraiser expenses – Bingo	<u>\$ 12,402</u>
Total Expenditures	<u>\$ 132,461</u>

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:

Conneaut Lake Volunteer Fire Department

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH AND
SADSBURY TOWNSHIP OF PENNSYLVANIA
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Undocumented Expenditures

By receiving reimbursement of \$22,208 from the affiliated fire company and by providing adequate documentation to evidence the propriety of the remaining \$6,000 of undocumented expenditures that were made in the prior audit period.

- Unauthorized Expenditure

By receiving reimbursement of \$5,542 from the affiliated fire company for the unauthorized expenditure 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 four prior audit findings. This finding is noted below and discussed in detail in the Finding and Recommendation section of this report:

- Failure To Comply With Terms Of Loan Agreement

Although the relief association addressed the affiliated fire company's failure to comply with the terms of the original loan agreement by refinancing a new loan, the relief association failed to ensure that the new refinanced loan was adequately secured as further disclosed in the finding 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.

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH AND
SADSBURY TOWNSHIP OF PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Unsecured Loan

Condition: Although the relief association addressed the affiliated fire company’s failure to comply with the terms of the original loan agreement by refinancing a new loan, the relief association failed to ensure that the new refinanced loan was adequately secured. On February 12, 2019, the relief association refinanced the existing loan in the amount of \$76,415. The terms of the new loan agreement indicated that the affiliated fire company would make a lump sum payment of \$16,000 leaving a balance of \$60,415 with monthly payments of \$544 due to the relief association, beginning on March 1, 2019 and ending with the last payment due January 2031; however, the relief association failed to ensure that the new loan was adequately secured.

Criteria: Section 7416(c)(3) of Act 118 requires that loans be:

... (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

Cause: Relief association officials indicated that property is being used to secure the loan; however, no supporting documentation has been provided.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk. Furthermore, the relief association’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials and the affiliated fire company amend the written loan agreement to provide adequate security for the relief association’s investment as required by Section 7416(c)(3) of Act 118 and provide any supporting documentation. If such action is not taken, we recommend that the loan be immediately liquidated. 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.

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH AND
SADSBURY TOWNSHIP OF PENNSYLVANIA
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by the finding 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.

RELIEF ASSOCIATION OF CONNEAUT LAKE BOROUGH AND
SADSBURY TOWNSHIP OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Relief Association of Conneaut Lake Borough and Sadsbury Township of Pennsylvania
Governing Body:

Mr. Timothy Latta
President

Ms. Renee Lee
Secretary

Mr. John Eric Baum
Treasurer

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

Ms. Christine Morian
Secretary
Conneaut Lake Borough

Ms. Rose A. Mumau
Secretary
Sadsbury 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.