

# COMPLIANCE AUDIT

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## Galeton Firemen's Relief Association

Potter County, Pennsylvania  
For the Period  
January 1, 2017 to December 31, 2020

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August 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. Robert Martin, President  
Galeton Firemen's Relief Association  
Potter County

We have conducted a compliance audit of the Galeton Firemen'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, 2017 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, 2017 to December 31, 2020:

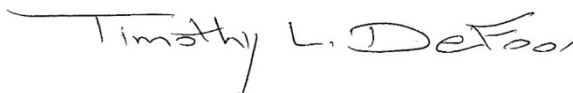
- The relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below and 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 – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 3 – Failure To Disclose Related Party

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

July 22, 2021

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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>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Galeton Borough	Potter	\$4,648	\$4,238	\$4,611	\$4,672
Hector Township	Potter	\$1,003	\$ 914	\$ 970	\$ 971
Pike Township	Potter	\$2,853	\$2,615	\$2,729	\$2,757
Ulysses Township	Potter	\$2,373	\$2,171	\$2,278	\$2,286
West Branch Township	Potter	\$2,080	\$1,894	\$2,033	\$2,024
Gaines Township	Tioga	\$4,724	\$4,279	\$4,555	\$4,571

Based on the relief association’s records, its total cash and investments as of December 31, 2020 were \$154,415, as illustrated below:

Cash	\$ 108,000
Fair Value of Investments	<u>46,415</u>
Total Cash and Investments	<u><u>\$ 154,415</u></u>

**BACKGROUND – (Continued)**

Based on the relief association’s records, its total expenditures for the period January 1, 2017 to December 31, 2020 were \$59,088, 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>1</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	<u>\$ 10,108</u>
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Fire Services:

Equipment purchased	\$ 46,764
Equipment maintenance	244
Training expenses	<u>1,397</u>

Total Fire Services	<u>\$ 48,405</u>
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Administrative Services:

Bond premiums	<u>\$ 575</u>
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Total Expenditures	<u><u>\$ 59,088</u></u>
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The volunteer firefighters’ relief association and the affiliated fire service organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Gale Hose Co. No. 1

Goodyear Hose Co. No. 1

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<sup>1</sup> Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

GALETON FIREMEN'S RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Inadequate Relief Association Bylaws

By revising the relief association bylaws to meet the minimum requirements of Act 118.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Unauthorized Expenditures

Although the relief association received reimbursement of \$21,375 from the affiliated fire company for the unauthorized expenditures that were made in the prior audit period, the relief association still needs to seek reimbursement of \$7,125 for the remaining balance due 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.



GALETON FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

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

Condition: As was noted in the prior audit, the relief association expended funds for the following items that were not authorized by Act 118:

Date	Check No.	Description	Amount
06/05/15	517	Ambulance building sprinkler/exhaust systems	\$ 20,000
10/16/15	525	Ambulance building installation of slip resistant flooring	<u>8,500</u>
Total			<u>\$ 28,500</u>

On August 10, 2018, an agreement was signed between the Department of the Auditor General and the relief association officials to establish a four year repayment plan/agreement from the relief association's affiliated fire company for annual payments of \$7,125. During the current audit period, the relief association deposited three annual payments totaling \$21,375. As of December 31, 2020, one annual payment of \$7,125 is still due to the relief association.

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.
- (17) To pay reasonable expenses actually and necessarily incurred for attending bona fide emergency medical technician or paramedic training schools.

Costs associated with the purchase of ambulance building improvements and maintenance do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

GALETON FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Cause: The relief association officials are aware of the repayment plan calling for four annual payments of which three were deposited into the relief association account. The relief association officials plan to receive and deposit the remaining annual payment.

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 \$7,125 for the remaining unauthorized expenditures and that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) 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 \$7,125 for the remaining unauthorized expenditures on July 15, 2021 to satisfy the terms of the agreement.

Auditor's Conclusion: We reviewed documentation verifying that the final reimbursement of \$7,125 was received on July 15, 2021. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

**Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage**

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$100,000; however, as of December 31, 2020, the relief association's cash assets totaled \$108,000.

Criteria: Section 7415(c)(4) of Act 118 states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

GALETON FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: Relief association officials stated that it was an oversight due to the lack of making purchases during COVID-19. They failed to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

Effect: As a result of the authorized disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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 Disclose Related Party**

Condition: Relief association officials failed to disclose a related party to the relief association membership. The relief association did business with a local financial institution that employs the Treasurer of the relief association. As of December 31, 2020, the financial institution holds 24 percent of the relief association's assets.

A related party transaction occurs when the relief association does business with a vendor that employs or is owned by a relief association officer or a member of an officer's immediate family. Such a transaction may provide a less than arm's length financial benefit to such officer or member of such officer's immediate family through a commission or a profit from a sale.

GALETON FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Criteria: Best business practices dictate that all potential related party transactions should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, all officers and/or members involved with a business that is party to the related party transaction should abstain from all votes concerning such transactions.

Cause: Relief association officials indicated that they were unaware that related party transactions should be disclosed to the membership.

Effect: The failure to properly disclose a related party may create potential conflicts of interest which could result in the relief association being involved in less than arm's length financial transactions.

Recommendation: We recommend that the relief association officials take the actions necessary to eliminate the appearance of conflicts of interests. Actions should include, but are not limited to, written notification to the relief association membership for each related party transaction, and the abstention from decisions and voting rights by the relief association officials who are involved owners of businesses that have business dealings with the relief association. These actions should be documented in the relief association's minutes. Furthermore, the relief association officials should closely review all related party transactions to ensure that all transactions are at arm's length, i.e., the cost of the services rendered by the firm is competitive.

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.

GALETON FIREMEN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Galeton Firemen's Relief Association Governing Body:

**Mr. Robert Martin**  
President

**Mr. Vince Bowen**  
Vice-President

**Ms. Nichole Shadle**  
Secretary

**Ms. Alaina Knisely**  
Treasurer

GALETON 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. Andrea L. Caracciolo**  
Secretary  
Galeton Borough

**Ms. Bonnie French**  
Secretary  
Hector Township

**Ms. Katie A. Bodendorf**  
Secretary  
Pike Township

**Ms. Vicki L. Moon**  
Secretary  
Ulysses Township

**Ms. Katie A. Bodendorf**  
Secretary  
West Branch Township

**Ms. Janet L. Green**  
Secretary  
Gaines Township

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