

# COMPLIANCE AUDIT

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## The Highland Township Volunteer Fireman's Relief Association

Elk County, Pennsylvania

For the Period

January 1, 2018 to December 31, 2020

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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. William A. Edinger, President  
The Highland Township Volunteer Fireman's  
Relief Association  
Elk County

We have conducted a compliance audit of The Highland Township Volunteer Fireman'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 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 independent confirmations of the cash balance and the investment balance directly from the financial institutions. Therefore, while the relief association provided bank statements but no year end investment statements that indicated that, as of December 31, 2020, the relief association had a cash balance of \$10,154 and as of October 9, 2020 an investment balance with a fair value of \$1,350, we were not able to verify those cash and investment balances.

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 –  
Undocumented Expenditures

Finding No. 2 – Failure To Maintain A Pennsylvania Sales Tax Exemption  
Number

Finding No. 3 – Failure To Monitor Investment Activity And Secure  
Ownership Access

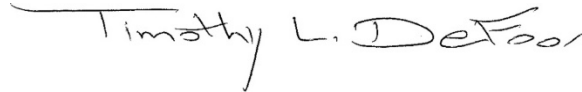
Finding No. 4 – Failure To Maintain Surety (Fidelity) Bond Coverage

The four findings contained in this report cite conditions that existed in the operation of the relief association during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

We have also issued the observation below as detailed in the Observation section of this report.

Observation – Unreasonable Officers Compensation

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

August 19, 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Highland Township	Elk	\$2,018	\$2,188	\$2,211

Based on the relief association’s records, its total cash and investments as of December 31, 2020 were \$11,504, as illustrated below:

Cash	\$ 10,154
Fair Value of Investments	<u>1,350</u>
Total Cash and Investments	<u>\$ 11,504</u>

Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$2,872, 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:

Fire Services:	
Training expenses	<u>\$ 400</u>
Administrative Services:	
Officer compensation	\$ 2,400
Other administrative expenses	<u>72</u>
Total Administrative Services	<u>\$ 2,472</u>
Total Expenditures	<u>\$ 2,872</u>

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:

Highland Township Volunteer Fire Department

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

THE HIGHLAND TOWNSHIP VOLUNTEER FIREMAN'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:

- Undocumented Expenditures

The relief association failed to receive reimbursement of \$1,052 for the undocumented expenditures that were made in the prior audit period, 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.



THE HIGHLAND TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

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

Condition: During the current audit period, the relief association was unable to provide adequate supporting documentation for the following expenditures made in the prior audit period:

Date	Check No.	Payee Description	Amount
04/27/15	180	Training vendor	\$ 240
04/27/15	181	Training vendor	60
11/27/15	1006	Training vendor	400
01/06/16	1007	Training vendor	215
01/06/16	1008	Training vendor	107
04/05/17	1016	Administrative vendor	30
Total			\$ 1,052

Criteria: Section 7418(a) of Act 118 states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained to verify the propriety of all expenditures. Relief association officials indicated that receipts were not provided for the training expenditures.

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of Act 118. In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

THE HIGHLAND TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We again recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$1,052 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all 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.

**Finding No. 2 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number**

Condition: The relief association failed to maintain a Pennsylvania sales tax exemption number. Although the relief association did have its own sales tax exemption number, it expired on August 31, 2010, and is no longer valid.

Criteria: Section 7415(e) of Act 118 states:

A volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

Cause: Relief association management has indicated that they were using an incorrect form for filing to maintain/obtain a sales tax exemption number.

Effect: As a result of the relief association's failure to maintain a sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on their purchases, which ultimately reduces the funds otherwise available for general operating expenditures or for investment purposes.

THE HIGHLAND TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Recommendation: We recommend that the relief association officials use the correct form to immediately reapply for a new state sales tax exemption number from the Department of Revenue and furnish this exemption number to all vendors from whom the relief association purchases equipment. 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 Monitor Investment Activity And Secure Ownership Access**

Condition: Relief association officials failed to monitor their investment activity. Specifically, on October 12, 2020, a certificate of deposit owned by the relief association was transferred to another investment company through a buyout of the original investment company that previously held the certificate of deposit. Relief association officials lost access to the account as the certificate of deposit did not have active and proper signatory authority assignment and relief officials were unable to contact the prior investment company to assist in obtaining ownership rights and access to the account. As of the last account statement dated October 12, 2020, the reported value of the investment amounted to \$1,350 when the new investment company took over. The relief association officials have stated that they have not been able to access this account.

Criteria: The relief association's governing body has ultimate authority and the fiduciary responsibility for the financial management of relief association's funds which includes an obligation to monitor the activity of relief association's investments on a periodic basis which is a prerequisite for sound administration of relief association accounts. Further, proper signatory authority should be maintained on all relief association investments so that the relief association secures its access and control of all relief association assets.

Cause: Relief association officials indicated that the inability to access the account is due to a former treasurer, whom has passed away, being listed as the person of contact on the certificate of deposit.

Effect: The relief association's failure to adequately monitor investment activity resulted in a potential loss of funds to pay general operating expenses or for other investment purposes and any future interest income from this investment.

THE HIGHLAND TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Recommendation: We recommend the relief association contact the financial institution to inquire as to the process to obtain access/information for the account, including the proper updating of signatory authority. The relief association also needs to ensure that investment statements are obtained and maintained for the certificate of deposit. In addition, the management of the relief association should monitor all future investments to ensure they are maximizing their investment return and safeguarded from loss. 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. 4 – Failure To Maintain Surety (Fidelity) Bond Coverage**

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. The relief association's Surety (Fidelity) bond coverage was canceled on November 20, 2018. As of December 31, 2020, the relief association's cash assets totaled \$10,154.

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.

Cause: Relief association officials indicated that miscommunication between the relief association and fire department resulted in the erroneous cancellation of the Surety (Fidelity) bond coverage.

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

THE HIGHLAND TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

Recommendation: We recommend that the relief association officials obtain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by Act 118. 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 had already taken action to comply by purchasing bond coverage in an amount greater than the relief association's maximum cash balance on December 15, 2020.

Auditor's Conclusion: We reviewed documentation verifying that the relief association obtained bond coverage on December 15, 2020. Compliance for maintaining bond coverage during the next audit period will be subject to verification through our next audit.

THE HIGHLAND TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION  
OBSERVATION

**Observation – Unreasonable Officers Compensation**

During the audit period, the relief association paid a total of \$2,400 for officers' salaries. For the three year audit period, the relief association only wrote 15 checks with 12 of those checks being issued for the payment of the four officers' salaries. Although Act 118 includes provisions for the payment of normal and reasonable running expenses as may be appropriate to the business conduct of a relief association's affairs, the amount of officers' salaries being paid appears to be unreasonable since the officers' salaries totaled nearly 84% of the total disbursements of the relief association and nearly 37% of state aid allocated to the relief association during the current audit period.

As stipulated in Act 118, the primary purpose of a volunteer firefighters' relief association is to afford financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The payment, however, of officers' salaries expenses of this magnitude appears to be inconsistent with the intent of Act 118, which was enacted to ensure that funds shall be available for the protection of volunteer firefighters' and their heirs.

The relief association officials should reevaluate the payment of officers' salaries paid to the four relief association officers and determine if the amount of this expense is appropriate, especially in light of the intent of Act 118 and the operating needs of the relief association. We will review this issue during our next audit for compliance with Act 118 and the recommendation this observation.

THE HIGHLAND TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

The Highland Township Volunteer Fireman's Relief Association Governing Body:

**Mr. William A. Edinger**  
President

**Mr. Kenneth Beers**  
Vice President

**Ms. Amy Beers**  
Secretary

**Ms. Misty D. Edinger**  
Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association:

**Ms. Carrie Dempsey**  
Secretary  
Highland 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).