

COMPLIANCE AUDIT

Joint Hermitage/Patagonia Volunteer Firemen's Relief Association

Mercer County, Pennsylvania

For the Period

January 1, 2019, to December 31, 2021

April 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Keith A. Scheuermann, President
Joint Hermitage/Patagonia Volunteer
Firemen's Relief Association
Mercer County

We have conducted a compliance audit of the Joint Hermitage/Patagonia Volunteer Firemen's Relief Association (relief association) for the period January 1, 2019, to December 31, 2021. 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 independent confirmations of the investment balance directly from the financial institutions. Therefore, while the relief association provided investment statements that indicated that, as of December 31, 2021, the relief association had investment balance with a fair value of \$2,073,111, we were not able to verify this investment balance.

Based on our audit procedures, we conclude that, for the period January 1, 2019, to December 31, 2021:

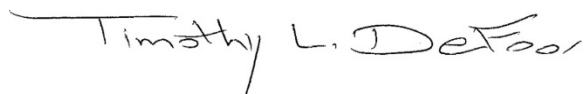
- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below, and discussed in the Status of Prior Finding section of this report.
- Because of the significance of the matter described in Finding No. 2 below and discussed later in this report and the effects, if any, of the matter described in the preceding paragraph, 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 No. 1 – Noncompliance With Prior Audit Recommendation –
Failure To Deposit Proceeds From Trailer Sold

Finding No. 2 – Inappropriate Ownership Of Rescue Vehicle

Finding No. 3 – Inadequate Relief Association Bylaws

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
March 16, 2023

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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.

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

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Hermitage City	Mercer	\$89,965	\$87,524	\$76,276
Lackawannock Township	Mercer	\$ 3,846	\$ 3,893	\$ 3,577

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)

Based on the relief association’s records, its total cash and investments as of December 31, 2021, were \$2,165,090, as illustrated below:

Cash	\$ 91,979
Fair Value of Investments	<u>2,073,111</u>
Total Cash and Investments	<u>\$ 2,165,090</u>

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2021, were \$704,244, 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:	
Death benefits	\$ 9,500
Relief benefits	9,525
Tokens of sympathy and goodwill	<u>185</u>
Total Benefit Services	<u>\$ 19,210</u>
Fire Services:	
Equipment purchased	\$ 569,401
Equipment maintenance	26,868
Training expenses	<u>7,341</u>
Total Fire Services	<u>\$ 603,610</u>
Administrative Services:	
Bond premiums	\$ 1,052
Other administrative expenses	<u>372</u>
Total Administrative Services	<u>\$ 1,424</u>
Total Investments Purchased	<u>\$ 80,000</u>
Total Expenditures	<u><u>\$ 704,244</u></u>

⁴ 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 organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Hermitage Volunteer Fire Department, Inc.

Patagonia Volunteer Fire Company

JOINT HERMITAGE/PATAGONIA VOLUNTEER 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:

- Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

Although the relief association received reimbursement of \$5,325 from the affiliated fire company for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle that occurred in the prior audit period, the relief association again failed to ensure that all future proceeds resulting from the sale of a vehicle were deposited into a relief association account 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 recommendation and corrective action noted in this audit report.

JOINT HERMITAGE/PATAGONIA VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Deposit
Proceeds From Trailer Sold**

Condition: Although the relief association received reimbursement of \$5,325 from the affiliated fire company for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle that occurred in the prior audit period, the relief association again failed to ensure that all future proceeds resulting from the sale of a vehicle were deposited into a relief association account. On March 21, 2016, the proceeds from the sale of the 1997 Carmate Cascade Trailer owned by the relief association, in the amount of \$1,200, were erroneously deposited into a fire company account and the relief association did not receive and deposit the proceeds from the sale of the trailer at the time of the sale or during our audit period.

A similar condition was noted in our prior audit report.

Criteria: Prudent business practice dictates that the relief association should closely monitor all sales to ensure proceeds are received and timely deposited into a relief association account.

Cause: The relief association officials indicated that they did not realize that the trailer was owned by the relief association.

Effect: The failure to deposit all relief association proceeds from equipment sold in a timely manner can lead to a greater risk that funds could be lost or misappropriated. As a result of the proceeds from equipment sold being deposited into a fire company account, the relief association was unable to use the funds to purchase replacement equipment, for general operating expenses, or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$1,200 from the fire company. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all proceeds from equipment sold are timely deposited into a relief association account. 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 \$1,200 on February 17, 2023, for the erroneous deposit from the sale of the trailer.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$1,200 was received. Compliance for equipment sold made during the next audit period will be subject to verification through our next audit.

JOINT HERMITAGE/PATAGONIA VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inappropriate Ownership Of Rescue Trailer

Condition: On March 22, 2016, the relief association purchased a 2008 Load Rite Trailer, in the amount of \$15,000, to carry safeguard equipment; however, the title to the trailer was never transferred to the relief association and inappropriately remained issued in the name of the seller.

Criteria: Prudent business practice dictates that the relief association should maintain sole ownership of all equipment purchased by the relief association. Therefore, rescue equipment such as trailers purchased by the relief association are to be titled in the name of the relief association.

Cause: The relief association officials indicated that they thought the trailer had been properly titled; however, the title was never processed/obtained.

Effect: As a result of the rescue equipment (trailer) still being inappropriately titled in the name of the seller, this relief association asset was not properly safeguarded. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the rescue equipment (trailer) be titled in the name of the relief association. If such action is not taken, we recommend that the relief association be reimbursed \$15,000. 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.

Finding No. 3 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the relief association do not contain all of the provisions required by Section 7415(c) of the VFRA Act. Specifically, the bylaws do not address that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

JOINT HERMITAGE/PATAGONIA VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Section 7415(c) of the VFRA Act states that the relief association's bylaws shall:

- (3) Require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

Cause: Relief association officials indicated that they were unaware of the mandatory bylaw provisions established by the VFRA Act.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act and properly authorize the operating procedures of the relief association. 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.

JOINT HERMITAGE/PATAGONIA VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 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 316E Finance Building, Harrisburg, PA 17120.

JOINT HERMITAGE/PATAGONIA VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Joint Hermitage/Patagonia Volunteer Firemen's Relief Association Governing Body:

Mr. Keith A. Scheuermann
President

Mr. Thomas J. Rollinson
Vice President

Mr. Walter Y. Cowan
Secretary

Mr. Lawrence Clark
Treasurer

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

Mr. Gary Hinkson
City Manager
Hermitage City

Ms. Judy Jennings
Secretary
Lackawannock 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.