

# COMPLIANCE AUDIT

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## Knox Volunteer Firefighter's Relief Association Clarion County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

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June 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Mr. Richard L. Cochran, President  
Knox Volunteer Firefighter's  
Relief Association  
Clarion County

We have conducted a compliance audit of the Knox Volunteer Firefighter'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, 2013 to December 31, 2015.

The objective of the audit was to determine if the relief association received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures. Our audit was limited to the areas related to the objective identified above.

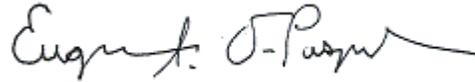
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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 objective. 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, 2013 to December 31, 2015, the relief association, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures, except as noted in the finding listed below and discussed later in this report.

Finding – Unauthorized Expenditure

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

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.



EUGENE A. DEPASQUALE  
Auditor General

June 15, 2016

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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. The relief association's bylaws define the specific operational procedures by which the relief association conducts 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 the relief association 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>2013</u>	<u>2014</u>	<u>2015</u>
Ashland Township	Clarion	\$ 6,830	\$6,493	\$6,253
Beaver Township	Clarion	\$10,272	\$9,733	\$9,473
Knox Borough	Clarion	\$ 6,062	\$5,754	\$5,517
Salem Township	Clarion	\$ 4,779	\$4,555	\$4,338

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:

Knox Volunteer Fire Company, Inc.

KNOX VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

**Finding – Unauthorized Expenditure**

**Condition:** The relief association expended \$302 for the fire company's 2014 bond coverage during the current audit period that is not authorized by Act 118.

**Criteria:** Act 118 at 35 Pa.C.S. § 7416(f)(1 and 11) 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 the fire company's bond coverage do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

**Cause:** Relief association officials indicated that they were unaware that the expenditure for the fire company's bond coverage was not authorized by Act 118.

**Effect:** As a result of this improper expenditure, 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 \$302 for the unauthorized expenditure 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, on April 22, 2016, the affiliated fire company reimbursed the relief association \$302 for the unauthorized expenditure.

**Auditor's Conclusion:** We reviewed documentation verifying that the reimbursement of \$302 was received. Compliance with determining the propriety of future expenditures will be subject to verification through our next audit.

KNOX VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2015

Cash	\$ 116,723
Fair Value of Investment	<u>23,413</u>
Total Cash and Investments	<u>\$ 140,136</u>

KNOX VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:

Insurance premiums	\$ 9,332
Relief benefits	75
Total Benefit Services	\$ 9,407

Fire Services:

Equipment purchased	\$ 55,379
Equipment maintenance	7,477
Training expenses	2,146
Total Fire Services	\$ 65,002

Administrative Services:

Other administrative expenses	\$ 3,388
Bond premiums	1,224
Total Administrative Services	\$ 4,612

Total Expenditures	\$ 79,021
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KNOX VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Knox Volunteer Firefighter's Relief Association Governing Body:

**Mr. Richard L. Cochran**  
President

**Mr. Richard Nelson**  
Vice President

**Mr. W. Michael Mason**  
Secretary

**Mr. Timmy L. Cochran**  
Treasurer

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

**Ms. Rebekah A. Nellis**  
Secretary  
Ashland Township

**Mr. Hugh Slaughaupt, Jr.**  
Secretary  
Beaver Township

**Ms. Sharon K. Heeter**  
Secretary  
Knox Borough

**Ms. Linda Spoharski**  
Secretary  
Salem Township

KNOX VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

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