

COMPLIANCE AUDIT

Knox Volunteer Firefighter's Relief Association

Clarion County, Pennsylvania

For the Period

January 1, 2020, to December 31, 2022

July 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Jason McMillen, 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) for the period January 1, 2020, to December 31, 2022. 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 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.

We were not able to obtain independent confirmations of the cash balance and the investment balances directly from the financial institutions. Therefore, while the relief association provided copies of bank and investment statements that indicated that, as of December 31, 2022, the relief association had a cash balance of \$97,228 and an investment balance with a fair value of \$37,279, we were not able to verify those cash and investment balances.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2020, to December 31, 2022:

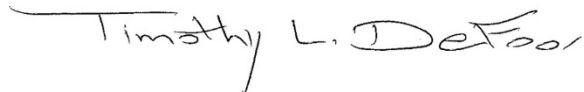
- The relief association took appropriate corrective action to address three of the four findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below, and discussed in the Status of Prior Findings section of this report.
- 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 – Untimely Deposit Of State Aid

Finding No. 3 – Failure To Deposit Proceeds From The Sale Of A Jointly
Purchased Vehicle

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
June 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.

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)

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

| <u>Municipality</u> | <u>County</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|---------------------|---------------|-------------|-------------|-------------|
| Ashland Township | Clarion | \$5,501 | \$4,590 | \$5,628 |
| Beaver Township | Clarion | \$8,317 | \$7,105 | \$8,941 |
| Knox Borough | Clarion | \$4,703 | \$4,085 | \$4,810 |
| Salem Township | Clarion | \$3,894* | \$3,409 | \$4,220 |

* The 2020 state aid allocation received from Salem Township was not deposited by the relief association until January 4, 2021, as disclosed in Finding No. 2 in this report.

Based on the relief association’s records, its total cash and investments as of December 31, 2022, were \$134,507, as illustrated below:

| | |
|----------------------------|-------------------|
| Cash | \$ 97,228 |
| Fair Value of Investments | <u>37,279</u> |
| Total Cash and Investments | <u>\$ 134,507</u> |

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$80,317, 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:

| | | |
|------------------------|----|---------------|
| Insurance premiums | \$ | 6,866 |
| Death benefits | | 5,000 |
| Total Benefit Services | \$ | <u>11,866</u> |

Fire Services:

| | | |
|-----------------------|----|---------------|
| Equipment purchased | \$ | 61,429 |
| Equipment maintenance | | 4,319 |
| Training expenses | | 1,394 |
| Total Fire Services | \$ | <u>67,142</u> |

Administrative Services:

| | | |
|-------------------------------|----|--------------|
| Bond premiums | \$ | 1,209 |
| Other administrative expenses | | 100 |
| Total Administrative Services | \$ | <u>1,309</u> |

| | | |
|--------------------|----|----------------------|
| Total Expenditures | \$ | <u><u>80,317</u></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:

Knox Volunteer Fire Co., Inc.

⁴ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

KNOX VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION
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:

- Unauthorized Expenditures

By receiving reimbursement of \$2,058 from the affiliated fire company for one of the unauthorized expenditures in the prior audit period and by executing written formal agreements with the affiliated fire company for lighting installed on the affiliated fire company vehicles that adequately secures its proportional ownership interest in those jointly purchased vehicles for the remaining unauthorized expenditures.

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

- Inadequate Minutes Of Meetings

By maintaining detailed minutes of all relief association meetings held during the period.

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 Findings and Recommendations section of this report:

- Undocumented Expenditure

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.

KNOX VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: During the prior audit period, the relief association was unable to provide adequate supporting documentation or receive reimbursement for \$593 of undocumented expenditures, and the relief association officials did not take corrective action to address the undocumented expenditures prior to the current audit period ending December 31, 2022.

Criteria: Section 7418(a) of the VFRA Act 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: Although the relief association officials indicated that one of the purchases was made from an online vendor and the individual failed to get a receipt from the seller, no reason was provided for the remaining undocumented expenditures despite the relief association being notified of this condition during our prior audit.

Effect: Lack of supporting documentation, such as invoices and/or itemized receipts, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of the VFRA Act. 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.

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 \$593 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.

KNOX VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 \$400 for the undocumented expenditures on April 14, 2023.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$400 was received. We again recommend that the relief association officials provide adequate supporting documentation or that the relief association be reimbursed \$193 for the remaining undocumented expenditures. We are concerned by the relief association's failure to fully correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 2 – Untimely Deposit Of State Aid

Condition: The relief association did not deposit the 2020 state aid allocation it received from Salem Township, in the amount of \$3,894 until January 4, 2021. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 22, 2020, who forwarded this state aid to the relief association on November 19, 2020, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: The relief association officials did not provide a reason why the state aid was not deposited timely.

KNOX VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely deposit of all future income received. 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 Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

Condition: In 2020, the relief association had expended \$2,579 towards the purchase of lighting upgrades on the affiliated fire company owned 1992 International Tanker and entered into an agreement with the affiliated fire company dated May 20, 2020, where the relief association would receive the pro-rata share percentage of 8% if the vehicle was ever sold. In 2021, the jointly purchased vehicle was sold for \$42,500; however, the relief association did not receive its pro-rata share of 8% (\$3,400) and only received \$2,579 of the proceeds. The relief association is still owed \$821 from the sale proceeds.

Criteria: Section 7418(a) of the VFRA Act 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.

KNOX VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold. Once the vehicle is sold, the relief association officials should closely monitor the sale to ensure proceeds are received and timely deposited into a relief association account.

Cause: The relief association officials indicated that they reimbursed the relief association the cost of the lighting instead of the 8% proportional ownership interest of proceeds from the sale of the jointly purchased vehicle.

Effect: The failure to receive and deposit the proceeds from the sale of a jointly purchased vehicle with the affiliated fire company places the relief association's ownership interest at greater risk. As a result, the relief association was unable to use the funds for general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$821 for its remaining pro-rata share of the proceeds from the sale of the jointly purchased vehicle. We also recommend that the relief association officials establish accounting and internal control procedures to ensure that all future proceeds resulting from the sale of a jointly purchased vehicle are timely deposited in 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 indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

KNOX VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Knox Volunteer Firefighter's Relief Association Governing Body:

Mr. Jason McMillen
President

Mr. Richard Cochran
Vice President

Mr. Josh Lencer
Secretary

Mr. W. Michael Mason
Assistant Secretary

Mr. Timmy L. Cochran
Treasurer

Mr. Barry M. English
Assistant Treasurer

KNOX VOLUNTEER FIREFIGHTER'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. Erika Nebinski
Secretary
Ashland Township

Mr. Hugh Slaughaupt, Jr.
Secretary
Beaver Township

Ms. Sharon K. Heeter
Secretary
Knox Borough

Ms. Wendy D. Simpson
Secretary
Salem Township

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