

COMPLIANCE AUDIT

Logan Township Volunteer Fireman's Relief Association

Blair County, Pennsylvania

For the Period

January 1, 2018 to December 31, 2020

April 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Jeffrey Blake, President
Logan Township Volunteer Fireman's
Relief Association
Blair County

We have conducted a compliance audit of the Logan 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 objective of the audit was 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 objective 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 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, 2018 to December 31, 2020, 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.

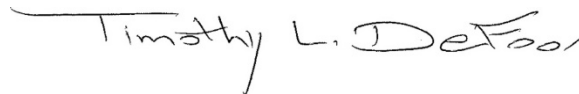
Finding No. 1 – Unauthorized Expenditures

Finding No. 2 – Payment Of Pennsylvania Sales Tax

Finding No. 3 – Inadequate Minutes Of Meetings

Finding No. 4 – Failure To Define Discretionary Benefits

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.

March 25, 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>
Logan Township	Blair	\$63,574	\$71,052	\$69,812

Based on the relief association's records, its total cash and investments as of December 31, 2020 were \$606,540, as illustrated below:

Cash	\$ 29,612
Fair Value of Investments	<u>576,928</u>
Total Cash and Investments	<u>\$ 606,540</u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$274,428, 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.¹ **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	\$ 63,321
Death benefits	1,500
Total Benefit Services	<u>\$ 64,821</u>
Fire Services:	
Equipment purchased	\$ 108,479
Equipment maintenance	58,777
Total Fire Services	<u>\$ 167,256</u>
Administrative Services:	
Officer compensation	\$ 5,700
Other administrative expenses	33,621
Bond premiums	1,679
Total Administrative Services	<u>\$ 41,000</u>
Other Expenditures:	
Unauthorized expenditures	<u>\$ 1,351</u>
Total Expenditures	<u><u>\$ 274,428</u></u>

¹ 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:

Greenwood Volunteer Fire Department

Kittanning Trail Volunteer Fire Department

Lakemont Volunteer Fire Company

Logan Township United Fire Department

Newburg Volunteer Fire Company

LOGAN TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
03/27/2019	1327	Security access to fire company building	\$ 1,235
06/23/2020	1361	Shipping on above invoice	<u>116</u>
Total			<u><u>\$ 1,351</u></u>

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.

Costs associated with the purchase of a security system for a fire company owned building do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118.

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 \$1,351 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of Act 118 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.

LOGAN TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: Relief association management disagreed with the finding as presented at the audit exit conference and stated that the system is used to safeguard relief asset inventory and monitor access to its members.

Auditor's Conclusion: Although the relief association officials stated that the security system is used to safeguard relief association's assets and monitor access to its members, a building security system is considered an unallowable expenditure according to Act 118 and the Pennsylvania Department of Community and Economic Development's online database. Therefore, the finding remains as stated and compliance will be subject to verification through our next audit.

Finding No. 2 – Payment Of Pennsylvania Sales Tax

Condition: The relief association paid \$988 of Pennsylvania sales tax to vendors from which the relief association purchased equipment. These payments would not have been required if the relief association had provided its sales tax exemption number to the vendor.

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 officials indicated that they did not provide their state sales tax exemption number to all vendors from which the relief association purchases equipment.

Effect: As a result of the relief association's failure to provide its sales tax exemption number to all vendors, the relief association was required to pay Pennsylvania sales tax on its purchases, which reduced the funds otherwise available for general operating expenditures and for investment purposes.

Recommendation: We recommend that the relief association officials seek a refund of the sales tax paid, in the amount of \$988, by filing an appeal form (REV-65BA) with the Pennsylvania Department of Revenue's Board of Appeals. In addition, we recommend that, in the future, relief association officials furnish its state sales tax exemption number to all vendors from which the relief association purchases equipment. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

LOGAN TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 – Inadequate Minutes Of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings as required by Act 118 and the relief association's bylaws. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period. Meetings were only held two months during each year of the audit period which was not in accordance with the relief association's bylaws.

Criteria: Section 7415(a) of Act 118 states, in part, that the relief association:

. . . must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

The relief association's bylaws at Article VIII, Section 3 states, in part:

The Secretary shall keep a record of all proceedings of the meetings of the association in a book provided for that purpose;...

In addition, the relief association's bylaws at Article IX, Section 1 and 3(A) states, in part:

The regular meetings of this association shall be held at least quarterly.

The presence of seven (7) members shall constitute a quorum.

Cause: Relief association officials indicated that members were unable meet due to either an insufficient response, inclement weather or COVID-19. The relief association officials did not provide a reason for why the meeting minutes did not address all of the financial-related transactions that occurred during the audit period.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

LOGAN TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the relief association officials hold meetings as required by the bylaws and maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by 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.

Finding No. 4 – Failure To Define Discretionary Benefits

Condition: The relief association did not formally define and approve discretionary benefits that were being offered to its members. During the current audit period, the relief association paid \$1,500 in death benefits and \$5,700 in officers' compensation. Although these expenditures were authorized by Act 118, the types, amounts, and criteria to be met before receiving the benefits were not all described in a formal policy approved by the relief association membership and paid accordingly.

Criteria: Section 7413 of Act 118 states that funds shall be available:

- (3) For payment, either by insurance or by operation of a beneficial fund, of a sum certain to designated beneficiaries of a participating member following the death of a member for any cause and to establish criteria which members must meet in order to qualify as participants in a death benefit fund. (Emphasis added.)
- (5) Financial assistance to volunteer firefighters who, after having actively participated in the fire service for a specified minimum term, are no longer physically able to continue participation and are in need of financial assistance. (Emphasis added.)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, disability benefits, officer compensation, or any other type of discretionary benefit provided by Act 118, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal relief association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well as the criteria to be met in order to receive the benefits.

LOGAN TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Cause: The relief association officials stated that they thought the salaries and death benefit amounts were appropriately set in the meeting minutes. They also thought that since they have been paying the same amount for the past few years that it was fine if they didn't have every salary in there since they monitor their activity on a daily basis. Also, due to weather issues, lack of meeting quorum requirements, and COVID-19, they only met two times a year instead of the four required, and did not make up those missed meetings due to there being no extremely important business to discuss at the time.

Effect: The relief association's failure to formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the relief association.

Recommendation: We recommend that the relief association officials formally define and document the criteria of the discretionary benefits being offered to its membership and pay the benefits accordingly. The formal approval of benefits and related criteria should be documented in the bylaws, a policy statement, or in the official meeting minutes, and should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the criteria to be met before receiving the benefit. Furthermore, all approved discretionary benefits should be in accordance with provisions of 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 will take action to comply with the recommendation.

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

LOGAN 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

Logan Township Volunteer Fireman's Relief Association Governing Body:

Mr. Jeffrey Blake
President

Mr. Michael Lockard
Vice President

Mr. David Kell
Secretary

Mr. Carl Long
Treasurer

Ms. Amanda Lynch
Assistant Secretary

Mr. Ronald Shoenfelt
Assistant Treasurer

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

Ms. Tiffany M. Noonan
Secretary
Logan 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.