

COMPLIANCE AUDIT

Mahaffey Volunteer Firemen's Relief Association Clearfield County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

January 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Billy Harris, President
Mahaffey Volunteer Firemen's
Relief Association
Clearfield County

We have conducted a compliance audit of the Mahaffey Volunteer Firemen's Relief Association (relief association) for the period January 1, 2018 to December 31, 2020. 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, 35 Pa.C.S. § 7411 *et seq.* ("VFRA Act"), as most recently amended by Act 91 of 2020.

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.

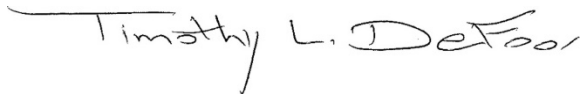
Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2020:

- The relief association took appropriate corrective action to address one of the two 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 –
Unauthorized Expenditure

Finding No. 2 – Untimely Receipt And Deposit Of State Aid

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
January 5, 2022

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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:

Municipality	County	2018	2019	2020
Bell Township	Clearfield	\$3,841	\$4,179	\$4,227
Burnside Township	Clearfield	\$1,647	\$1,827	\$1,859
Chest Township	Clearfield	\$ 785	\$ 835	\$ 851
Ferguson Township	Clearfield	\$1,210	\$1,360	\$1,372
Greenwood Township	Clearfield	\$1,750	\$1,924**	\$1,956
Mahaffey Borough	Clearfield	\$1,205	\$1,298	\$1,334
New Washington Borough	Clearfield	\$ 279	\$ 296	\$ 294
Newburg Borough	Clearfield	\$ 347	\$ 381***	\$ 387*

*The 2020 state aid allocation received from Newburg Borough was not deposited by the relief association until March 2, 2021 as disclosed in the finding in this report.

** Although Greenwood Township prepared and returned a Certification Form AG 385 for 2019 by the March 31 annual filing date in accordance with Act 205, the township did not distribute the 2019 state aid to the relief association in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 16, 2019, who forwarded this state aid to the relief association on June 2, 2020, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). The relief association officials provided documentation showing that they attempted to retrieve the funds from the municipality on February 15, 2020 and May 11, 2020. Upon receipt of the state aid allocation, the relief association deposited the funds into a relief association account on June 9, 2020.

*** Although Newburg Borough prepared and returned a Certification Form AG 385 for 2019, the borough failed to submit a 2019 Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this department as required by the instructions accompanying Form 706-B and the instructions accompanying the 2019 state aid allocation received by the borough disclosing this information.

Newburg Borough is still required to complete a 2019 Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B online within the Department of Community & Economic Development’s Municipal Statistics website (MunStats) as soon as possible.

Based on the relief association’s records, its total cash as of December 31, 2020 was \$9,704, as illustrated below:

Cash	<u>\$ 9,704</u>
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BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$65,846, 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	<u>\$ 2,262</u>
Fire Services:	
Equipment purchased	\$ 43,801
Equipment maintenance	4,404
Training expenses	2,025
Fire prevention materials	469
Total Fire Services	<u>\$ 50,699</u>
Administrative Services:	
Other administrative expenses*	\$ 1,709
Bond premiums	375
Total Administrative Services	<u>\$ 2,084</u>
Other Expenditures:	
Payments on loan	\$ 6,346
Miscellaneous**	4,000
Unauthorized expenditure	455
Total Other Expenditures	<u>\$ 10,801</u>
Total Expenditures	<u><u>\$ 65,846</u></u>

* A portion of the other administrative expenses represents \$1,000 for a 2018 unauthorized expenditure addressed in the prior audit report.

**The miscellaneous expenditure was a fraudulent check card expenditure in the amount of \$4,000 charged to the relief association’s account on January 25, 2018. Once the relief association discovered the fraudulent check card purchase, a dispute of charge was filed with the financial institution. On February 13, 2018, the \$4,000 was reimbursed to the relief association by the financial institution.

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

Community Volunteer Fire Department of Mahaffey

MAHAFFEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with one of the two prior audit findings and recommendations, as follows:

- Failure To Maintain A Complete And Accurate Equipment Roster

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

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Unauthorized Expenditures

Although the relief association received reimbursement of \$1,100 from the affiliated fire company for the unauthorized expenditures that were disclosed in our prior audit report, the relief association again expended funds in the current audit period that were not authorized by the VFRA Act 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.

MAHAFFEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditure

Condition: Although the relief association received reimbursement from the affiliated fire company for the unauthorized expenditures that were disclosed in our prior audit report, the relief association expended \$455 for a grant incentive program fee during the current audit period that is not authorized by the VFRA Act.

Criteria: Section 7416(f) of the VFRA Act 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 grant incentive program fee do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under the VFRA Act.

Cause: Although a similar expenditure was addressed in the prior audit unauthorized expenditure finding, the relief association officials indicated that they were unaware that the current expenditure for the grant incentive program fee was not authorized by the VFRA Act.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by the VFRA Act.

Recommendation: We recommend that the relief association be reimbursed \$455 for the unauthorized expenditure and that relief association officials become familiar with Section 7416(f) of the VFRA Act 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.

MAHAFFEY VOLUNTEER FIREMEN'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 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 – Untimely Receipt And Deposit Of State Aid

Condition: Newburg Borough prepared and returned a Certification Form AG 385 for 2020 by the March 31 annual filing date in accordance with Act 205, but the borough did not distribute the 2020 state aid in the amount of \$387 to the relief association in a timely manner. 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 December 12, 2020, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). The relief association did not deposit the 2020 state aid allocation it received from Newburg Borough until March 2, 2021. Since there was no documentation indicating that the relief association attempted to retrieve the funds, the relief association was not able to demonstrate that it attempted to obtain the funds timely and also did not deposit the funds timely upon receipt.

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.

MAHAFFEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Although the relief association management indicated that the municipality failed to forward the state aid allocation to the relief association in a timely manner, the relief association officials did not provide a reason for why the funds from the borough were not deposited timely.

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds 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 receipt and 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.

MAHAFFEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mahaffey Volunteer Firemen's Relief Association Governing Body:

Mr. Billy Harris
President

Mr. Kenny Wetzel
Vice President

Ms. Theresa Dilts
Secretary

Mr. Joshua Kenneth Bush
Treasurer

MAHAFFEY VOLUNTEER FIREMEN'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. Barbara H. Kauffman
Secretary
Bell Township

Ms. Diana L. Rorabaugh
Secretary
Burnside Township

Mr. Larry Garner
Secretary
Chest Township

Ms. Beth Jenkins
Secretary
Ferguson Township

Ms. Christine Lewis
Secretary
Greenwood Township

Ms. Sally M. Long
Secretary
Mahaffey Borough

Ms. Stephanie J. Marshall
Secretary
New Washington Borough

Ms. Jennifer M. Peterson
Secretary
Newburg Borough

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.