

COMPLIANCE AUDIT

Marshalls Creek Firemen's Relief Association of Marshalls Creek, PA Monroe County, Pennsylvania For the Period January 1, 2020, to December 31, 2022

March 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Gary Van Horn, President
Marshalls Creek Firemen's Relief Association
of Marshalls Creek, PA
Monroe County

We have conducted a compliance audit of the Marshalls Creek Firemen's Relief Association of Marshalls Creek, PA (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 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 association 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.

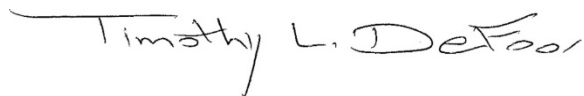
Based on our audit procedures, we conclude that, for the period January 1, 2020, to December 31, 2022, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure 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 – Untimely Receipt And Deposit Of State Aid

Finding No. 3 – Failure To Maintain A Complete And Accurate Membership Roster

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.

Timothy L. DeFoor
Auditor General
March 15, 2024

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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 relief association officers therefore have a responsibility to the public to conduct the relief association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all relief association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the relief 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>
Middle Smithfield Township	Monroe	\$65,680	\$57,259	\$70,022
Price Township	Monroe	\$19,714	\$17,455*	\$21,946*
Smithfield Township	Monroe	\$21,854	\$19,042	\$24,073

* The 2021 and 2022 state aid allocations received from Price Township were not deposited by the relief association until April 27, 2022, and March 29, 2023, respectively, as disclosed in Finding No. 1 in this report.

Based on the relief association’s records, its total cash and investments as of December 31, 2022, were \$208,605, as illustrated below:

Cash	\$ 56,810
Fair Value of Investments	<u>151,795</u>
Total Cash and Investments	<u><u>\$ 208,605</u></u>

BACKGROUND – (Continued)

Based on the relief association's records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$318,940, 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	\$	85,108
Death benefits		500
Total Benefit Services	\$	<u>85,608</u>

Fire Services:

Equipment purchased	\$	71,035
Equipment maintenance		39,577
Training expenses		654
Fire prevention materials		10,911
Total Fire Services	\$	<u>122,177</u>

Administrative Services:

Bond premiums	\$	200
Other administrative expenses *		1,885
Total Administrative Services	\$	<u>2,085</u>

Total Investments Purchased	\$	<u>90,000</u>
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Other Expenditures:

Unauthorized expenditures – See Finding No. 1	\$	17,270
Miscellaneous **		1,800
Total Other Expenditures	\$	<u>19,070</u>

Total Expenditures	\$	<u><u>318,940</u></u>
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* The other administrative expenses represent \$1,885 expended in calendar year 2020 and 2022 for preparation of tax documents.

** On December 8, 2020, the relief association reimbursed the affiliated fire company for an erroneous deposit made on October 28, 2020, to the relief association account.

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:

Marshalls Creek Fire Company

MARSHALLS CREEK FIREMEN’S RELIEF ASSOCIATION OF MARSHALLS CREEK, PA
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 the VFRA Act:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/28/2020	1961	Commercial property insurance premiums	\$ 1,419
07/22/2020	1970	Commercial property insurance premiums	1,419
10/13/2020	1978	Commercial property insurance premiums	1,419
04/13/2021	1993	Commercial property insurance premiums	1,633
06/08/2021	2003	Commercial property insurance premiums	1,633
08/10/2021	2010	Commercial property insurance premiums	1,633
10/12/2021	2015	Commercial property insurance premiums	1,634
11/09/2021	2023	Portable toilet rental for event	100
03/15/2022	2029	Commercial property insurance premiums	1,595
06/14/2022	2031	Commercial property insurance premiums	1,595
08/09/2022	2036	Commercial property insurance premiums	1,595
09/13/2022	2037	Commercial property insurance premiums	1,595
Total			<u>\$ 17,270</u>

In addition, the relief association expended funds for the following items, subsequent to the current audit period, that were not authorized by the VFRA Act:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/02/2023	2056	Commercial property insurance premiums	\$ 2,862
06/13/2023	2062	Commercial property insurance premiums	2,862
07/26/2023	2070	Commercial property insurance premiums	2,862
09/14/2023	2074	Commercial property insurance premiums	2,863
Total			<u>\$ 11,449</u>

MARSHALLS CREEK FIREMEN'S RELIEF ASSOCIATION OF MARSHALLS CREEK, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.
- (2) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.
- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service, including necessary training.

In addition, Section 7418(b) of the VFRA Act states:

- (b) Findings -- If the Auditor General finds that money received by a volunteer firefighters' relief association has been expended for a purpose other than one authorized by this subchapter, the commissioner, upon receiving notice of the finding from the auditor general, shall decline to approve payment to the volunteer firefighters' relief association until the improperly expended amount has been reimbursed to the relief association fund.

Costs associated with the purchase of commercial property insurance and portable toilet rentals for public events do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

MARSHALLS CREEK FIREMEN'S RELIEF ASSOCIATION OF MARSHALLS CREEK, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: The relief association officials did not provide a reason why this occurred but noted the expenditures were made in error.

Effect: As a result of these improper expenditures, 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 \$28,719 for the unauthorized expenditures 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.

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 \$28,719 for the unauthorized expenditures on February 15, 2024.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$28,719 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

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

Condition: Although Price Township prepared and returned a Certification Form AG 385 for 2021 and 2022 by the March 31 annual filing dates in accordance with Act 205, the township did not distribute the 2021 and 2022 state aid, in the amounts of \$17,455 and \$21,946, respectively, to the relief association in a timely manner. The foreign fire insurance tax allocations were distributed to the municipal treasurer on September 21, 2021, and September 21, 2022, who forwarded this state aid to the relief association on April 23, 2022, and March 27, 2023, respectively, 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 had no documentation that it had attempted to obtain the funds from the township. Upon receipt of the state aid allocations, the relief association deposited the funds into a relief association account on April 27, 2022, and March 29, 2023, respectively.

MARSHALLS CREEK FIREMEN'S RELIEF ASSOCIATION OF MARSHALLS CREEK, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 the relief association officials should be questioning the municipality about their state aid if only one relief association is in the fire service area.

Cause: The relief association officials, as well as township officials, indicated the township experienced staffing issues and did not have adequate internal controls in place to ensure the timely distribution of state aid to the relief association.

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.

Finding No. 3 – Failure To Maintain A Complete And Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members.

MARSHALLS CREEK FIREMEN'S RELIEF ASSOCIATION OF MARSHALLS CREEK, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members' mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials did not provide a reason why this occurred but noted it was an error.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

MARSHALLS CREEK FIREMEN'S RELIEF ASSOCIATION OF MARSHALLS CREEK, PA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Marshalls Creek Firemen's Relief Association of Marshalls Creek, PA Governing Body:

Mr. Gary Van Horn
President

Ms. Rachel Heller
Secretary

Mr. David Mahon
Treasurer

Mr. Thomas Rode, Jr.
Trustee

Mr. Norman Fish, Sr.
Trustee

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

Ms. Michele L. Clewell
Secretary
Middle Smithfield Township

Mr. Richard Mosher
Secretary
Price Township

Ms. Julia Heilakka
Secretary
Smithfield Township

MARSHALLS CREEK FIREMEN'S RELIEF ASSOCIATION OF MARSHALLS CREEK, PA
REPORT DISTRIBUTION LIST

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