

# COMPLIANCE AUDIT

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## Nicholson Volunteer Firefighters No. 1 Relief Association Wyoming County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

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November 2021



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. Willard Irion, President  
Nicholson Volunteer Firefighters No. 1  
Relief Association  
Wyoming County

We have conducted a compliance audit of the Nicholson Volunteer Firefighters No. 1 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.

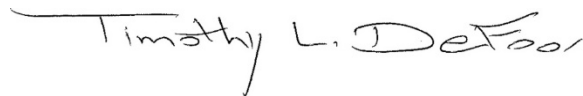
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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 the findings contained in our prior audit 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 finding listed below and discussed later in this report.

Finding – 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 response has 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.

November 9, 2021

Timothy L. DeFoor  
Auditor General

## CONTENTS

|  | <u>Page</u> |
|--|-------------|
| Background .....   | 1           |
| Status of Prior Findings .....                           | 4           |
| Finding and Recommendation:                              |             |
| Finding – Untimely Receipt And Deposit Of State Aid..... | 5           |
| Report Distribution List .....                           | 7           |

## BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code<sup>1</sup>, and the Volunteer Firefighters' Relief Association Act<sup>2</sup> ("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 Law<sup>3</sup> (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.

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<sup>1</sup> 72 P.S. § 403 (as last amended by Act 44 of 2017).

<sup>2</sup> 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

<sup>3</sup> 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>2018</u> | <u>2019</u> | <u>2020</u> |
|---------------------|---------------|-------------|-------------|-------------|
| Lathrop Township    | Susquehanna   | \$1,430     | \$1,537     | \$1,545     |
| Lenox Township      | Susquehanna   | \$2,855     | \$3,009     | \$3,019**   |
| Nicholson Borough   | Wyoming       | \$3,139     | \$3,409     | \$3,438     |
| Nicholson Township  | Wyoming       | \$7,765*    | \$7,916*    | \$8,439     |

\* The 2018 and 2019 state aid allocations received from Nicholson Township were not deposited by the relief association until June 13, 2019 and July 21, 2020, respectively, as disclosed in the finding in this report.

Although Nicholson Township prepared and returned a Certification Form AG 385 for 2018 and 2019, the date the township distributed the 2018 and 2019 state aid to the relief association could not be determined because the township failed to submit a 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 2018 and 2019 state aid allocation received by the township disclosing this information.

**Nicholson Township is still required to complete the 2018, 2019 and 2021 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.**

\*\* Although Lenox Township prepared and returned a Certification Form AG 385 for 2020, the date the township distributed the 2020 state aid to the relief association could not be determined because the township failed to submit a 2020 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 2020 state aid allocation received by the township disclosing this information.

**Lenox Township is still required to complete the 2020 and 2021 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.**

## BACKGROUND – (Continued)

Based on the relief association’s records, its total cash and investments as of December 31, 2020 were \$162,354 as illustrated below:

|                            |                   |
|----------------------------|-------------------|
| Cash                       | \$ 149,030        |
| Fair Value of Investments  | <u>13,324</u>     |
| Total Cash and Investments | <u>\$ 162,354</u> |

Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$40,523, 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.<sup>4</sup> **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>\$ 6,438</u> |
|--------------------|-----------------|

#### Fire Services:

|                       |                  |
|-----------------------|------------------|
| Equipment purchased   | \$ 23,393        |
| Equipment maintenance | <u>10,346</u>    |
| Total Fire Services   | <u>\$ 33,739</u> |

#### Administrative Services:

|                               |               |
|-------------------------------|---------------|
| Other administrative expenses | \$ 46         |
| Bond premiums                 | <u>300</u>    |
| Total Administrative Services | <u>\$ 346</u> |

|                    |                  |
|--------------------|------------------|
| Total Expenditures | <u>\$ 40,523</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:

Nicholson Volunteer Fire Company

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

NICHOLSON VOLUNTEER FIREFIGHTERS NO. 1 RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Insufficient Surety (Fidelity) Bond Coverage

By increasing the Surety (Fidelity) bond coverage to an amount greater than the balance of the relief association's cash assets.

- Erroneous Deposit Of Investment Proceeds

By receiving reimbursement of \$6,452 from the affiliated fire company for the erroneous deposit, and by establishing accounting procedures to ensure that all investment proceeds are timely deposited into a relief association account.



NICHOLSON VOLUNTEER FIREFIGHTERS NO. 1 RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

**Finding – Untimely Receipt And Deposit Of State Aid**

Condition: Although Nicholson Township prepared and returned a Certification Form AG 385 for 2018 and 2019 by the March 31 annual filing date in accordance with Act 205, the township did not distribute the 2018 and 2019 state aid in the amounts of \$7,765 and \$7,916, respectively, to the relief association in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 17, 2018 and September 16, 2019, respectively, who dated the checks to the relief association for the state aid allocations on May 1, 2019 and July 20, 2020, 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). As noted previously on the Background page of this report, the date the township actually distributed the 2018 and 2019 state aid to the relief association could not be determined because the township failed to submit a 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 2018 and 2019 state aid allocation received by the township disclosing this information. Since there was no documentation indicating that the relief association attempted to retrieve the funds, we could not determine whether the relief association attempted to obtain the funds timely. Upon receipt of the state aid allocation, the relief association deposited the funds into a relief association account on June 13, 2019 and July 21, 2020, respectively.

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 informed us that the township withheld the funds even though they contacted them numerous times and explained the reasoning was that they wanted to review the relief association records and receive an annual budget before releasing state allocation funds; however, there was no documentation to show these attempts were made.

NICHOLSON VOLUNTEER FIREFIGHTERS NO. 1 RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

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

NICHOLSON VOLUNTEER FIREFIGHTERS NO. 1 RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Nicholson Volunteer Firefighters No. 1 Relief Association Governing Body:

**Mr. Willard Irion**  
President

**Mr. David Schmidt**  
Vice President

**Mr. Scott Aylesworth**  
Secretary

**Mr. Richard S. Lochen, Jr.**  
Treasurer

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

**Ms. Ann Marie Shevchuk**  
Secretary  
Lathrop Township

**Ms. Sharon Depew**  
Secretary  
Lenox Township

**Ms. Jessica Bower**  
Secretary  
Nicholson Borough

**Ms. Lisa Mihalina**  
Secretary  
Nicholson Township

NICHOLSON VOLUNTEER FIREFIGHTERS NO. 1 RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).