

COMPLIANCE AUDIT

The Ramey Volunteer Firemen's Relief Association Clearfield County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

July 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Richard Jones, President
The Ramey Volunteer Firemen's
Relief Association
Clearfield County

We have conducted a compliance audit of The Ramey Volunteer Firemen'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, 2017 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.

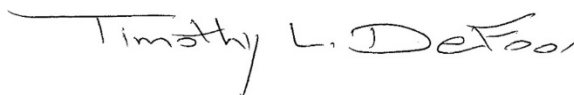
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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, because of the significance of the matter described in the findings below and discussed later in this report, the relief association did not, in all significant respects, comply 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, collectively as a whole, for the period January 1, 2017 to December 31, 2020. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

- Finding No. 1 – Untimely Deposit Of State Aid
- Finding No. 2 – Failure To Receive And Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle
- Finding No. 3 – Failure To Monitor Investment Activity
- Finding No. 4 – Undocumented Expenditures
- Finding No. 5 – Failure To Segregate Relief Association Officers' Duties

The five findings contained in this report cite conditions that existed in the operation of the relief association during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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

May 19, 2021

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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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Beccaria Township	Clearfield	\$ 823	\$ 749	\$ 813	\$ 824
Gulich Township	Clearfield	\$5,813	\$5,302	\$5,786	\$5,863
Ramey Borough	Clearfield	\$1,930*	\$1,745*	\$1,913	\$1,943

* The 2017 and 2018 state aid allocations received from Ramey Borough were not deposited by the relief association until April 5, 2021 and April 12, 2019, 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, 2020 were \$20,562. The relief association’s total reported cash and investments excludes \$16,460 of investments that appear to have been escheated, which is described in Finding No. 3 of this report. The value of the relief association’s cash and investments, excluding the investment amount that appears to have been escheated, is shown below.

Cash and Investments \$ 20,562

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2017 to December 31, 2020 were \$18,983, 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:

Fire Services:	
Equipment purchased	<u>\$ 1,224</u>
Administrative Services:	
Other administrative expenses	<u>\$ 212</u>
Other Expenditures:	
Payments on loan	\$ 17,143
Undocumented expenditures	<u> 404</u>
Total Other Expenditures	<u>\$ 17,547</u>
Total Expenditures	<u><u>\$ 18,983</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:

Ramey Fire Engine Company Number One

¹ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

THE RAMEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Deposit Of State Aid

Condition: The relief association did not deposit the 2017 and 2018 state aid allocation it received from Ramey Borough in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 25, 2017 and September 17, 2018, who forwarded this state aid to the relief association 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.

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2017	Ramey Borough	\$ 1,930	10/9/17	04/05/21
2018	Ramey Borough	\$ 1,745	10/1/18	04/12/19

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 indicated that the 2017 state aid was mistakenly deposited into the affiliated fire company's account. Additionally, for the 2018 state aid allocation, both the municipality and relief association officials indicated that the relief association misplaced the original state aid check and a replacement check was issued on February 4, 2019. Consequently, the relief association officials failed to establish procedures which require that all income received be recorded and deposited in a timely manner.

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.

THE RAMEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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: As a result of our audit, the relief association deposited the 2017 state aid from Ramey Borough, in the amount of \$1,930, on April 5, 2021. Continued compliance for timely deposit of state aid will be subject to verification through our next audit.

Finding No. 2 – Failure To Receive And Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

Condition: The relief association had expended \$73,710 towards the joint purchase of a 2001 Spartan Engine with the affiliated fire company which had a total loan cost/obligation of \$165,000 which includes \$135,000 for the new purchased vehicle less \$25,000 for the trade-in of a previously jointly owned vehicle and \$55,000 for payments still owed for a previous vehicle loan. Although the relief association did not enter into an agreement with the affiliated fire company as required, the relief association was due to receive the pro-rata share percentage of 44.7% if the vehicle was ever sold. According to relief association officials, on August 29, 2020, the jointly purchased vehicle was sold at a loss for \$75,000; however, the relief association did not receive and deposit its proportional ownership interest of the proceeds in the amount of \$33,525 from the sale of the jointly purchased vehicle. Further, according to relief association officials, the affiliated fire company used the proceeds received to pay towards the original \$165,000 joint purchase loan obligation. In addition, the relief association officials did not provide a copy of the bill of sale, so we could not verify the actual sales price of the vehicle.

Criteria: Section 7418(a) of Act 118 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.

THE RAMEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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 all sales to ensure proceeds are received and timely deposited into a relief association account.

Cause: Relief association officials indicated that the proceeds received were used by the affiliated fire company to pay towards the loan. Relief association officials did not provide a reason for why they did not provide a copy of the bill of sale.

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. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association be reimbursed \$33,525 (\$75,000 x 44.7%) for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle and provide a copy of the bill of sale. We also recommend 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: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

THE RAMEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Monitor Investment Activity

Condition: Relief association officials failed to monitor their investment activity. Specifically, on April 9, 2019, a certificate of deposit was considered dormant and was escheated to the Pennsylvania Department of Treasury. As of the last renewal notice dated January 20, 2017, the stated value of the investment amounted to \$16,460. Although relief officials did start the process to obtain the funds back into the relief association's possession before our audit began, as of the end of our audit fieldwork, the funds had not yet been received by the relief association.

Criteria: The relief association's governing body has ultimate authority and the fiduciary responsibility for the financial management of relief association's funds which includes an obligation to monitor the activity of relief association's investments on a periodic basis which is a prerequisite for sound administration of relief association accounts.

Cause: The relief association officials did not provide a reason for why this occurred.

Effect: The relief association's failure to adequately monitor investment activity resulted in a potential loss of funds to pay general operating expenses or for other investment purposes and any future interest income from this investment.

Recommendation: We recommend the relief association contact the Bureau of Unclaimed Property with the Pennsylvania Department of Treasury to obtain the funds from their dormant custodial investment account. In addition, the management of the relief association should monitor all future investments to ensure they are maximizing their investment return and that their investments are safeguarded from loss. 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 have taken action to comply with the recommendation.

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

THE RAMEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
09/13/19	Withdrawal	Unknown	\$ 154
02/12/18	Withdrawal	Unknown	250
Total			<u>\$ 404</u>

Criteria: Section 7418(a) of Act 118 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: The relief association officials did not provide a reason for why this occurred.

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of Act 118. 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 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 \$404 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.

THE RAMEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (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 partially reimbursed the relief association \$154 for one of the two undocumented expenditures on April 5, 2021.

Auditor's Conclusion: Relief officials should obtain adequate supporting documentation for the remaining undocumented expenditure or obtain reimbursement. Compliance will be subject to verification through our next audit.

Finding No. 5 – Failure To Segregate Relief Association Officers' Duties

Condition: During the current audit, we detected that the same individual holds the position of both relief association secretary and treasurer.

Criteria: Prudent business practice dictates that the duties of the secretary and treasurer be sufficiently segregated. An adequate segregation of duties is the primary internal control intended to prevent or decrease the risk of errors or irregularities.

The minimum requirements of the secretary's position, pertaining to a relief association, are to maintain detailed minutes of meetings authorizing the relief association's financial operations. The secretary should review and coordinate the amending of the bylaws governing the relief association so that the bylaws meet the minimum requirements of Act 118.

The minimum requirements of the treasurer's position, pertaining to a relief association, are to maintain an account of all funds belonging to the relief association. The treasurer shall maintain a journal and ledger detailing all financial transactions of the relief association along with documentation supporting the receipts and disbursements. The treasurer should co-sign all negotiable instruments along with another relief association officer. Also, financial statements should be prepared at least on an annual basis by the treasurer.

Cause: The relief association officials did not provide a reason for why this occurred.

Effect: An inadequate segregation of duties could prevent relief association officials and members from effectively monitoring the relief association's financial transactions. Additionally, it negates the checks and balances necessary to detect and correct financial errors or irregularities in the relief association's accounting system.

THE RAMEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Recommendation: We recommend that the relief association officials ensure that there is adequate segregation of duties between the relief association's secretary and treasurer. We also recommend that the relief association officials review its accounting and internal control procedures to ensure that the duties being performed by the secretary and treasurer are sufficiently segregated so that relief association assets are adequately safeguarded. 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.

THE RAMEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action may not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

THE RAMEY 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

The Ramey Volunteer Firemen's Relief Association Governing Body:

Mr. Richard Jones
President

Mr. Matthew J. Jordan
Secretary/Treasurer

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

Ms. Kim Hamilton
Secretary
Beccaria Township

Mr. Andrew M. Popyack
Secretary
Gulich Township

Ms. Trina M. Janocko
Secretary
Ramey 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.