

COMPLIANCE AUDIT

Shenango Township Volunteer Firefighters Relief Association, of Mercer County, Pennsylvania

For the Period
January 1, 2017 to December 31, 2019

January 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Earl A. Butterfield, President
Shenango Township Volunteer Firefighters
Relief Association, of Mercer County,
Pennsylvania

We have conducted a compliance audit of the Shenango Township Volunteer Firefighters Relief Association, of Mercer County, Pennsylvania (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, 2019.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding 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.

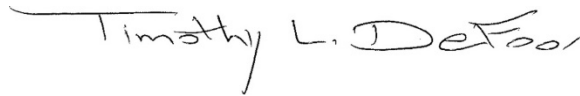
Based on our audit procedures, we conclude that, for the period January 1, 2017 to December 31, 2019:

- The relief association took appropriate corrective action to address the finding 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 findings listed below and discussed later in this report.

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

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 13, 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.

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Shenango Township	Mercer	\$19,836	\$18,058	\$19,426

BACKGROUND – (Continued)

Based on the relief association's records, its total cash and investments as of December 31, 2019 were \$45,682 as illustrated below:

Cash	\$ 35,228
Fair Value of Investments	<u>10,454</u>
Total Cash and Investments	<u>\$ 45,682</u>

Based on the relief association's records, its total expenditures for the period January 1, 2017 to December 31, 2019 were \$156,575, 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	<u>\$ 1,837</u>
Fire Services:	
Equipment purchased	\$ 145,849
Equipment maintenance	7,397
Training expenses	768
Fire prevention materials	492
Total Fire Services	<u>\$ 154,506</u>
Administrative Services:	
Other administrative expenses	\$ 32
Bond premiums	200
Total Administrative Services	<u>\$ 232</u>
Total Expenditures	<u>\$ 156,575</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 organization are separate, legal entities. The relief association is affiliated with the following fire service organization:

Shenango Township Volunteer Fire Department, Mercer County, Pennsylvania

SHENANGO TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION, OF
MERCER COUNTY, PENNSYLVANIA
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Failure To Maintain A Complete And Accurate Equipment Roster

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

SHENANGO TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION, OF
MERCER COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Condition: On May 12, 2018, the relief association expended \$5,000 for the purpose of jointly purchasing a 2002 Mack Granite Pumper with the affiliated fire company and Shenango Township (municipality). However, the relief association did not adequately secure its ownership interest in the jointly purchased vehicle as the vehicle was titled solely in the name of Shenango Township. Although the relief association entered into a formal written agreement, the agreement was only with the affiliated fire company and did not include the municipality.

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 the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that includes all interested parties and 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.

Cause: The relief association officials stated that they were unaware of the process to secure their ownership interest in a jointly purchased vehicle.

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicle places the relief association's ownership interest at greater risk.

Recommendation: We recommend that the relief association officials modify the formal written agreement that enumerates the relief association's proportional ownership interests in the jointly purchased vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold to include the municipality's representatives in addition to the relief association and affiliated fire company's representatives. If such action is not taken, we recommend that the relief association be reimbursed \$5,000. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

SHENANGO TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION, OF
MERCER COUNTY, PENNSYLVANIA
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, as a result of our audit, provided our Department with an agreement having the required signatures of all parties on January 14, 2021.

Auditor’s Conclusion: We reviewed documentation verifying that the agreement had the necessary signatures present. Compliance for securing ownership interest in jointly purchased vehicles during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Condition: On December 15, 2019, the relief association expended \$7,000 towards the affiliated fire company’s purchase of rescue tools in the amount of \$24,865 without properly securing its ownership interest.

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 the relief association should secure its proportional ownership interest in the equipment purchased by the relief association by executing a formal written agreement that enumerates the relief association’s proportional share of the cost of the equipment. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds, in the event the equipment is ever sold.

Cause: Relief association officials inadvertently completed a Donation of Equipment Agreement with the affiliated fire company instead of an equipment agreement to adequately secure its proportional ownership interest in the equipment.

SHENANGO TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION, OF
MERCER COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The failure to adequately secure the proportional share of ownership interest in the equipment purchased by the relief association places the relief association's ownership interest at greater risk.

Recommendation: We recommend that the relief association officials execute a formal written agreement with the affiliated fire company that enumerates the relief association's proportional ownership interest in the equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the equipment is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$7,000. 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 relief association officials and fire company officials executed a formal written agreement that specifies the proportionate sales proceeds that will revert to the relief association if the equipment is ever sold and provided a copy on January 22, 2021.

Auditor's Conclusion: We reviewed the agreement verifying the relief association's proportional ownership interest. Compliance for securing ownership interest in jointly purchased equipment during the next audit period will be subject to verification through our next audit.

SHENANGO TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION, OF
MERCER COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Shenango Township Volunteer Firefighters Relief Association, of Mercer County, Pennsylvania
Governing Body:

Mr. Earl A. Butterfield
President

Mr. Cory Beck
Vice President

Ms. Jessica Barnes
Secretary

Mr. Daniel Carnahan
Treasurer

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

Ms. Lynnett Beck
Secretary
Shenango 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.