

COMPLIANCE AUDIT

Shohola Township Volunteer Fireman's and Rescue Relief Association Pike County, Pennsylvania For the Period January 1, 2020, to December 31, 2022

July 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Brendon Keegan, President
Shohola Township Volunteer Fireman's
and Rescue Relief Association
Pike County

We have conducted a compliance audit of the Shohola Township Volunteer Fireman's and Rescue Relief Association (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.

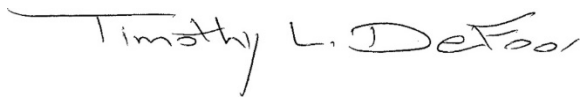
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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 – Failure To Deposit Proceeds From The Sales Of Jointly Purchased Vehicles

Finding No. 2 – Unauthorized Expenditures

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, flowing style.

Timothy L. DeFoor
Auditor General
May 25, 2023

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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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Shohola Township	Pike	\$19,581	\$17,457	\$21,683

Based on the relief association's records, its total cash as of December 31, 2022, was \$23,253, as illustrated below:

Cash	<u>\$ 23,253</u>
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Based on the relief association's records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$100,367, 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>\$ 8,847</u>
Fire Services:	
Equipment purchased	\$ 88,779
Equipment maintenance	600
Training expenses	<u>120</u>
Total Fire Services	<u>\$ 89,499</u>
Administrative Services:	
Bond premiums	<u>\$ 660</u>
Other Expenditures:	
Unauthorized expenditures	<u>\$ 1,361</u>
Total Expenditures	<u>\$ 100,367</u>

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:

Shohola Township Volunteer Fire and Rescue, Inc.

SHOHOLA TOWNSHIP VOLUNTEER FIREMAN'S AND RESCUE
RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Deposit Proceeds From The Sales Of Jointly Purchased Vehicles

Condition: The relief association failed to receive and deposit its proportional proceeds it was entitled to for the sale of two jointly owned vehicles, as follows:

1. In 2009, the relief association expended \$30,000 towards the joint purchase of a 2009 GMC Rescue with the affiliated fire company which had a total cost of \$129,200. The relief association entered into an agreement with the affiliated fire company dated April 4, 2011, where the relief association would receive the pro-rata share percentage of 23% if the vehicle was ever sold. In 2020, the jointly purchased vehicle was sold for \$46,200; however, the relief association did not receive and deposit its proportional ownership interest of the proceeds due from the sale of the jointly purchased vehicle.
2. In addition, in 2010, the relief association expended \$20,000 towards the joint purchase of a 2010 Sutphen Custom Pumper with the affiliated fire company which had a total cost of \$210,348. The relief association entered into an agreement with the affiliated fire company dated April 4, 2011, where the relief association would receive the pro-rata share percentage of 9% if the vehicle was ever sold. In 2014, the jointly purchased vehicle was sold for \$165,000; however, the relief association did not receive and deposit its proportional ownership interest of the proceeds due from the sale of the jointly purchased vehicle.

Criteria: Section 7418(a) of the VFRA Act 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 vehicles by executing formal written agreements that enumerate the relief association's proportional share of financing. Such agreements shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicles, in the event the vehicles are ever sold. Once the vehicles are sold, the relief association officials should closely monitor all sales to ensure proceeds are received and timely deposited into a relief association account.

SHOHOLA TOWNSHIP VOLUNTEER FIREMAN'S AND RESCUE
RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Relief association officials executed formal written agreements with the fire company; however, relief association officials failed to ensure that the relief association's proportional ownership interest due from the proceeds of the sales of the jointly purchased vehicles with the affiliated fire company were received and deposited into a relief association account.

Effect: The failure to receive and deposit the proceeds from the sales of the jointly purchased vehicles 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.

Recommendation: We recommend that the relief association be reimbursed \$25,476 for its pro-rata share of the proceeds from the sales of the jointly purchased vehicles. 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$25,476 on February 16, 2023, for its proportional ownership interest of the proceeds from the sales of the jointly purchased vehicles.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$25,476 was received. Compliance will be subject to verification through our next audit.

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended \$1,361 for fire company insurance during the current audit period that is not authorized by the VFRA Act. Furthermore, subsequent to the audit period under review, the relief association expended \$2,459 for additional fire company insurance.

SHOHOLA TOWNSHIP VOLUNTEER FIREMAN'S AND RESCUE
RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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.
- (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.
- (12) To secure insurance against legal liability of the volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or performing their duties as special fire police.

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 fire company insurance do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, the disbursements are not authorized under the VFRA Act.

Cause: The relief association officials indicated that they were unaware that the expenditures for fire company insurance were not authorized by the VFRA Act.

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.

SHOHOLA TOWNSHIP VOLUNTEER FIREMAN'S AND RESCUE
RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association be reimbursed \$3,820 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 \$3,820 for the unauthorized expenditures on April 6, 2023.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$3,820 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

SHOHOLA TOWNSHIP VOLUNTEER FIREMAN'S AND RESCUE
RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Shohola Township Volunteer Fireman's and Rescue Relief Association Governing Body:

Mr. Brendon Keegan
President

Mr. Charles Kaese
Vice President

Mr. Rolf Buchmann
Secretary

Mr. Brad Dellert
Treasurer

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

Ms. Diana Blume
Secretary
Shohola 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.