

COMPLIANCE AUDIT

Spartansburg Volunteer Fire
Department Relief Association,
Incorporated
Crawford County, Pennsylvania
For the Period
January 1, 2018 to December 31, 2020

August 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Patrick Varish, President
Spartansburg Volunteer Fire Department
Relief Association, Incorporated
Crawford County

We have conducted a compliance audit of the Spartansburg Volunteer Fire Department Relief Association, Incorporated (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, 2018 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.

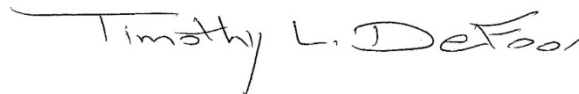
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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 Finding No. 1 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, 2018 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 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Finding No. 2 – Failure To Fully Define Discretionary Benefits And Unauthorized Expenditure

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

July 27, 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Rome Township	Crawford	\$3,587	\$3,861	\$3,932
Sparta Township	Crawford	\$6,998	\$7,552	\$7,752
Spartansburg Borough	Crawford	\$1,236	\$1,332	\$1,364
Concord Township	Erie	\$1,500	\$1,630	\$2,167

BACKGROUND – (Continued)

Based on the relief association’s records, its total cash as of December 31, 2020 was \$18,144, as illustrated below:

Cash	<u>\$ 18,144</u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$44,121, 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	\$ 2,313
Relief benefits	500
Total Benefit Services	<u>\$ 2,813</u>
Fire Services:	
Equipment purchased	\$ 33,587
Equipment maintenance	3,212
Training expenses	639
Total Fire Services	<u>\$ 37,438</u>
Administrative Services:	
Other administrative expenses	\$ 777
Bond premiums	593
Total Administrative Services	<u>\$ 1,370</u>
Other Expenditures:	
Unauthorized expenditure	<u>\$ 2,500</u>
Total Expenditures	<u>\$ 44,121</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:

Spartansburg Volunteer Fire Department, Inc.

SPARTANSBURG VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION,
INCORPORATED
FINDINGS AND RECOMMENDATIONS

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

Condition: In 2011, the relief association expended \$134,028 for the purpose of jointly purchasing a vehicle with the affiliated fire company. The relief association and the affiliated fire department obtained a loan in the amount of \$100,128 that was used to purchase the vehicle. The loan was satisfied in 2017, however, auditors found that the name of the relief association was not on the vehicle title with the affiliated fire company, as was stated and required in the formal written agreement. As such, 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 the affiliated fire department.

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 ensure that its ownership interest is secured by having the name of the relief association recorded on the vehicle title.

Cause: The relief association officials indicated that they were not aware that the relief association's name was not on the title.

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

Recommendation: We recommend that the vehicle be jointly titled in the name of the relief association and the affiliated fire department as called for in the formal written agreement with the affiliated fire company that enumerates the relief association's percent ownership interest in the jointly purchased vehicle as well as stipulating that all sales proceeds shall revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$134,028. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

SPARTANSBURG VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION,
INCORPORATED
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 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.

Finding No. 2 – Failure To Fully Define Discretionary Benefits And Unauthorized Expenditure

Condition: Although notified by a verbal observation during the prior audit, the relief association did not fully define and approve discretionary benefits that were being offered to its members to comply with Act 118 or its bylaws during the current audit period. In 2018, the relief association disbursed \$2,500 in discretionary benefits to a relief association member for purposes of the funds to be donated/given to a non-relief association member who had a hardship. The relief association member was an immediate family member of the intended recipient of the disbursed funds. Although discretionary benefit expenditures are authorized by Act 118 and the relief association’s bylaws, only relief association members who meet requirements specified under Act 118 are eligible to receive such benefits, with the exception of a death benefit fund payment as noted in the Act. Therefore, the \$2,500 donation intended for a non-relief association member does not qualify as an authorized expenditure under Act 118.

Criteria: Section 7413 of Act 118 states that funds shall be available:

- (3) For payment, either by insurance or by operation of a beneficial fund, of a sum certain to designated beneficiaries of a participating member following the death of a member for any cause and to establish criteria which members must meet in order to qualify as participants in a death benefit fund. (Emphasis added.)
- (5) Financial assistance to volunteer firefighters who, after having actively participated in the fire service for a specified minimum term, are no longer physically able to continue participation and are in need of financial assistance. (Emphasis added.)

SPARTANSBURG VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION,
INCORPORATED
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Additionally, Section 7416(f) of Act 118 states:

- (6) To make cash payments to families in distressed circumstances by reason of age, infirmity or other disability suffered by one of the family members in the course of participation in the fire service as a volunteer firefighter.

Article V, Section 3 of the relief association bylaws state:

Any active member and in good standings who suffers a hardship and at the approval of the Board of Directors and two-thirds vote of the members present a donation will be made to the member not to exceed Twenty Five Hundred Dollars (\$2,500.00).

Furthermore, prudent business practice dictates that when a relief association offers death benefits, disability benefits, officer compensation, or any other type of discretionary benefit provided by Act 118, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal relief association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well as the criteria to be met in order to receive the benefits.

In addition, the costs of the donation to a non-relief association member does not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief officials did not provide a reason for why this occurred. Based on the relief association's February 12, 2018 meeting minutes which stated "for tax purposes, money has to be donated to a member," it appears that relief association officials were aware that only relief association members are eligible to receive discretionary benefits. However, it appears relief officials did not understand that such discretionary benefits are not to be paid to a relief association member as a pass through to a non-relief association member.

Effect: The relief association's failure to fully and formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the relief association. Additionally, as a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

SPARTANSBURG VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION,
INCORPORATED
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials fully and formally define and document the criteria of the discretionary benefits being offered to its membership. The formal approval of benefits and related criteria should be documented in the bylaws, a policy statement, or in the official meeting minutes, and should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the criteria to be met before receiving the benefit. We recommend that the relief association discontinue the practice of providing discretionary benefits to be used for purposes not authorized under Act 118 and that the relief association be reimbursed \$2,500 from the affiliated fire company for the unauthorized expenditure and that relief association officials become familiar with Section 7416(f) of Act 118 to aid them in determining the propriety of future expenditures. Furthermore, all approved discretionary benefits should be in accordance with provisions of Act 118 and the relief association's bylaws. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: In 2020, the relief association took action to comply with the recommendation of the verbal observation issued during the prior audit by amending the bylaws to formally define and document the criteria of the discretionary benefits being offered to its membership. Additionally, the 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: We reviewed the updated bylaws on June 8, 2021. Compliance for the receipt of reimbursement for the \$2,500 unauthorized benefit payment and the proper application of discretionary benefit payments will be subject to verification through our next audit.

SPARTANSBURG VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION,
INCORPORATED
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 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.

SPARTANSBURG VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION,
INCORPORATED
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Spartansburg Volunteer Fire Department Relief Association, Incorporated Governing Body:

Mr. Patrick Varish
President

Ms. Samantha Howard
Vice President

Ms. Dawn Keister Varish
Secretary

Ms. Rachael Patterson
Treasurer

SPARTANSBURG VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION,
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The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report:

Ms. Therese A. See
Secretary
Rome Township

Ms. Susan Christine Jewell
Secretary
Sparta Township

Ms. Jamie L. Ditzler
Secretary
Spartansburg Borough

Ms. Janice Ohl
Secretary
Concord 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.