

COMPLIANCE AUDIT

The Lock Haven Fireman's Relief Association of the State of Pennsylvania Clinton County For the Period January 1, 2019 to December 31, 2021

October 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Randy Gillen, President
The Lock Haven Fireman's Relief
Association of the State of Pennsylvania
Clinton County

We have conducted a compliance audit of The Lock Haven Fireman's Relief Association of the State of Pennsylvania (relief association) for the period January 1, 2019 to December 31, 2021. 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.

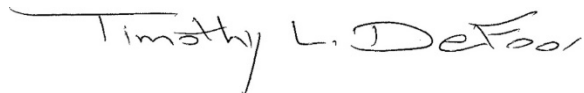
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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, 2019 to December 31, 2021, 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 – Unauthorized Expenditures

Finding No. 2 – Inadequate Financial Record-Keeping System

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 style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
September 20, 2022

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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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Allison Township	Clinton	\$ 1,216	\$ 1,217	\$ 1,093
Lock Haven City	Clinton	\$37,208	\$37,753	\$33,835

Based on the relief association's records, its total cash and investments as of December 31, 2021 were \$1,009,520, as illustrated below:

Cash	\$ 127,424
Fair Value of Investments	<u>882,096</u>
Total Cash and Investments	<u><u>\$ 1,009,520</u></u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2019 to December 31, 2021 were \$303,268, 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	\$	199,895
Death benefits		51,000
Total Benefit Services	\$	<u>250,895</u>

Fire Services:

Equipment purchased	\$	8,904
Equipment maintenance		15,529
Training expenses		21,457
Total Fire Services	\$	<u>45,890</u>

Administrative Services:

Bond premiums	\$	1,113
Officer compensation		1,925
Other administrative expenses		2,611
Total Administrative Services	\$	<u>5,649</u>

Other Expenditures:

Miscellaneous *	\$	334
Unauthorized expenditures		500
Total Other Expenditures	\$	<u>834</u>

Total Expenditures	\$	<u><u>303,268</u></u>
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* In 2020, the relief association paid extra towards their bond policy premium. The error was rectified by the insurance company who issued a reimbursement check to the relief association.

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 organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Citizens Hose Company

Hand-in-Hand Hose Company

Hope Hose Company

THE LOCK HAVEN FIREMAN’S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

Condition: As cited as a verbal observation in the prior audit period, the relief association expended \$284 for training for a non-member (paid firefighter) during the prior audit period which was not authorized by the VFRA Act.

Additionally, the relief association expended funds for the following items during the current audit period that are not authorized by the VFRA Act:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
10/16/2020	501	Training for a non-member (paid firefighter)	\$ 350
06/02/2021	1061	Training for a non-member (paid firefighter)	150
Total			<u>\$ 500</u>

The relief association had prior audit unauthorized expenditures of \$284, which were not reimbursed to the relief association, and current audit unauthorized expenditures of \$500 that should be reimbursed to the relief association, for a total of \$784, in reimbursement due to the relief association.

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.

- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters’ training schools.

Costs associated with the purchase of training for a non-member (paid firefighter) do not qualify as authorized volunteer firefighters’ relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

Cause: Relief association officials indicated that they were unaware of the unauthorized expenditure cited in the prior audit period. In addition, relief association officials indicated that they were unaware the aforementioned expenditures occurring in the current audit period were not authorized by the VFRA Act.

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PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

Recommendation: We recommend that the relief association be reimbursed \$784 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, an affiliated fire company reimbursed the relief association \$784 for the unauthorized expenditures on July 20, 2022.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$784 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Inadequate Financial Record-Keeping System

Condition: The relief association's financial record-keeping system did not establish adequate accounting procedures to allow the membership to effectively monitor the relief association's financial operations. The following are the noted deficiencies:

- A journal was not maintained from May 23, 2019 to October 15, 2020 to record the receipts and disbursements of the relief association.
- Ledgers were not utilized to record the transactions of the relief association accounts from January 1, 2019 through October 15, 2020.

Criteria: Section 7415(a) of the VFRA Act states:

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

THE LOCK HAVEN FIREMAN'S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials indicated that the prior treasurer did not turn over prior financial information.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We recommend that the relief association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations, including the maintenance of journals and ledgers of accounts. 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 LOCK HAVEN FIREMAN'S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Charles J. McGarvey, Sr.
State Fire Commissioner

The Lock Haven Fireman's Relief Association of the State of Pennsylvania Governing Body:

Mr. Randy Gillen
President

Mr. Joseph Sanders
Vice President

Mr. David L. Bardo
Secretary

Mr. Franklin R. Bardo, Jr.
Treasurer

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

Ms. Marissa Morgan
Secretary
Allison Township

Mr. Gregory J. Wilson
Manager
Lock Haven City

THE LOCK HAVEN FIREMAN'S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
REPORT DISTRIBUTION LIST

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.