

COMPLIANCE AUDIT

Cherry Tree Volunteer Fire Company Relief Association Indiana County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

April 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Ronald Fox, President
Cherry Tree Volunteer Fire Company
Relief Association
Indiana County

We have conducted a compliance audit of the Cherry Tree Volunteer Fire Company Relief Association (relief association) for the period January 1, 2018 to December 31, 2020. 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 objectives of the audit were:

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

We were not able to obtain an independent confirmation of the cash balance from the financial institution. Therefore, while the relief association provided copies of bank statements that indicated that, as of December 31, 2020, the relief association had a cash balance of \$5,798, we were not able to verify this cash balance.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2018 to December 31, 2020:

- The relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this 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.

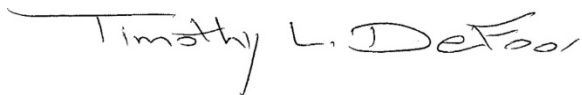
Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Untimely Receipt And Deposit Of State Aid

Finding No. 2 – Undocumented Expenditure

Finding No. 3 – Failure To Deposit Proceeds From Equipment Sold

Finding No. 4 – Inadequate Minutes Of Meetings

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
March 7, 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>2018</u>	<u>2019</u>	<u>2020</u>
Burnside Township	Clearfield	\$1,647	\$1,827	\$1,859
Cherry Tree Borough	Indiana	\$1,191*	\$1,296*	\$1,319
Montgomery Township	Indiana	\$2,362	\$2,549	\$2,572

* The 2018 and 2019 state aid allocations received from Cherry Tree Borough were not deposited by the relief association until November 18, 2021 as disclosed in Finding No. 1 in this report.

Based on the relief association’s records, its total cash as of December 31, 2020 was \$5,798, as illustrated below:

Cash	<u>\$ 5,798</u>
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BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$17,617, 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>\$ 2,037</u>
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Fire Services:

Equipment purchased	\$ 3,281
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Equipment maintenance	7,458
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Training expenses	<u>3,568</u>
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Total Fire Services	<u>\$ 14,307</u>
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Administrative Services:

Other administrative expenses	<u>\$ 673</u>
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Other Expenditures:

Undocumented Expenditures	<u>\$ 600</u>
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Total Expenditures	<u><u>\$ 17,617</u></u>
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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:

Cherry Tree Volunteer Fire Company

⁴ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with one of the two prior audit findings and recommendations, as follows:

- Inappropriate Ownership Of A Rescue Vehicle

By ensuring the title of the rescue vehicle was transferred to the relief association.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Untimely Receipt And Deposit Of State Aid

We are concerned by the relief association's failure to correct this previously reported audit finding. The relief association management should strive to implement the recommendation and corrective action noted in this audit report.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Untimely Receipt And
Deposit Of State Aid**

Condition: While the relief association received its state aid in a timely manner from the municipalities during the current audit period, the relief association did not deposit the 2018 and 2019 state aid allocations it received from Cherry Tree Borough, in the amounts of \$1,191 and \$1,296, respectively, until November 18, 2021. The foreign fire insurance tax allocations were distributed to the municipal treasurer on September 17, 2018 and September 16, 2019, who forwarded the state aid to the relief association on October 9, 2018 and October 12, 2019, respectively, which is 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 allocations, the relief association did not ensure the funds were deposited timely into a relief association account. In addition, although the relief association received and deposited reimbursement in the amount \$1,300 for the untimely received and deposited state aid from the prior audit period, the full amount of \$1,307 of state aid was not reimbursed and an additional \$7 of state aid remains due to the relief association.

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 stated the state aid allocation funds were mistakenly deposited into the fire company general checking account.

Effect: As a result of the untimely deposits, 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.

CHERRY TREE VOLUNTEER FIRE COMPANY 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. We also recommend that the relief association be reimbursed the remaining \$7 of state aid monies still due to the relief association. 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 \$2,487 for the 2018 and 2019 state aid.

Auditor's Conclusion: We reviewed documentation verifying that the 2018 and 2019 state aid from Cherry Tree Borough was reimbursed. However, we are concerned by the relief association's failure to correct the previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 2 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$600 to the affiliated fire company on November 1, 2019.

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 supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials stated the invoice supporting the expenditure was lost.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Lack of supporting documentation, such as an invoice and/or itemized receipt, made it impossible to determine if the expenditure was made in accordance with Section 7416(f) of the VFRA Act. 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 an invoice and/or itemized receipt, to ensure the propriety of the expenditure or that the relief association be reimbursed \$600 for the undocumented expenditure. 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.

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 \$600 for the undocumented expenditure on December 29, 2021.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$600 was received. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 3 – Failure To Deposit Proceeds From Equipment Sold

Condition: On October 4, 2021, the proceeds from the sale of 1995 Mitsubishi Mini-Truck owned by the relief association, in the amount of \$4,000, was erroneously deposited into a fire company account.

Criteria: Prudent business practice dictates that the relief association should closely monitor that all proceeds from equipment sold are received and timely deposited into a relief association account.

Cause: Relief association officials stated they were unaware the vehicle was owned by the relief association at the time of the sale.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: The failure to deposit all relief association proceeds from equipment sold in a timely manner can lead to a greater risk that funds could be lost or misappropriated. As a result of the proceeds from equipment sold being deposited into a fire company account, the relief association was unable to use the funds to purchase replacement equipment, for general operating expenses, or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$4,000 for the erroneous deposit. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all proceeds from equipment sold are timely deposited into 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, on February 3, 2022 the affiliated fire company reimbursed the relief association \$4,000 for the proceeds received from the sale of the relief owned vehicle.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$4,000 was received. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 4 – Inadequate Minutes Of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings as required by the VFRA Act and the relief association's bylaws. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period. The relief association had meeting minutes for seven months in 2018, no minutes in 2019, and eleven months in 2020.

Criteria: Section 7415(a) of the VFRA Act states, in part, that the relief association:

... 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.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

In addition, the relief association's bylaws at Article II, Section 1 states:

Regular meetings of this association shall be held immediately following the regular meeting of the Cherry Tree Volunteer Fire Company. Ten members shall constitute a quorum.

Cause: Relief association officials indicated that a lack of oversight was the reason for incomplete minutes of meeting documentation.

Effect: Without holding regular meetings and maintaining detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist and that meetings were held in accordance with relief association bylaws.

Recommendation: We recommend that the relief association officials hold all required meetings and maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. 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.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
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

Cherry Tree Volunteer Fire Company Relief Association Governing Body:

Mr. Ronald Fox
President

Ms. Sirena Gray
Treasurer

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

Ms. Diana L. Rorabaugh
Secretary
Burnside Township

Ms. Lisa Movinsky
Secretary
Cherry Tree Borough

Ms. Paula Burba
Secretary
Montgomery 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.