

COMPLIANCE AUDIT

Hemlock Farms Volunteer Firemen's Relief Association

Pike County, Pennsylvania

For the Period

January 1, 2018 to December 31, 2020

June 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Brandon Kennedy, President
Hemlock Farms Volunteer Firemen's
Relief Association
Pike County

We have conducted a compliance audit of the Hemlock Farms Volunteer Firemen's Relief Association (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.

We were not able to obtain independent confirmations of a portion of the cash balance and a portion of the investment balance directly from the financial institutions. Therefore, while the relief association provided copies of bank and investment statements that indicated that, as of December 31, 2020, the relief association had a cash balance of \$70,998 and an investment balance with a fair value of \$134,868, we were not able to verify those cash and investment balances.

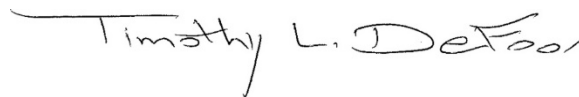
Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2018 to December 31, 2020, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the finding listed below and discussed later in this report.

Finding – Inadequate Signatory Authority For The Disbursement Of Funds

We have also issued the observation below as detailed in the Observation section of this report.

Observation – Excessive Accounting And Tax Preparation Fees

The contents of this report were discussed with the management of the relief association and, where appropriate, their response has 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

May 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:

Municipality	County	2018	2019	2020
Blooming Grove Township	Pike	\$17,773	\$18,500	\$18,442
Porter Township	Pike	\$ 4,724	\$ 4,762	\$ 4,731

BACKGROUND – (Continued)

Based on the relief association's records, its total cash and investments as of December 31, 2020 were \$205,866, as illustrated below:

Cash	\$ 70,998
Fair Value of Investments	<u>134,868</u>
Total Cash and Investments	<u>\$ 205,866</u>

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$62,868, 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>\$ 8,522</u>
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Fire Services:

Equipment purchased	\$ 26,981
Equipment maintenance	<u>532</u>
Total Fire Services	<u>\$ 27,513</u>

Administrative Services:

Other administrative expenses*	\$ 9,322
Bond premiums	<u>300</u>
Total Administrative Services	<u>\$ 9,622</u>

Total Investments Purchased	<u>\$ 17,211</u>
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Total Expenditures	<u><u>\$ 62,868</u></u>
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* See Observation.

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:

Hemlock Farms Volunteer Fire and Rescue Company

HEMLOCK FARMS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified five checks out of 15 checks drawn on the relief association's checking account that only contained the signature of one officer, the previous Treasurer of the relief association, even though two signatures are required by Act 118 and the relief association's bylaws. Issuing checks with the signature of only one officer negates the relief association's internal control over the disbursement process.

Criteria: Section 7415(c)(3) of Act 118 states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

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

The signatures of two officers, one whom shall be the treasurer, shall be required for the issuance of relief association checks.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: The relief association official stated a lack of oversight as the reason for these occurrences.

Effect: As a result of the relief association officer issuing checks with only one signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

HEMLOCK FARMS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (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: Compliance will be subject to verification through our next audit.

HEMLOCK FARMS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
OBSERVATION

Observation – Excessive Accounting And Tax Preparation Fees

During our audit period, beginning January of 2017, the relief association paid a total of \$8,898 or \$2,966 per year for accounting and tax preparation services. The relief association paid one third of the costs invoiced by a vendor who provided accounting and tax preparation services for the fire company, the emergency medical services association (EMS), and the relief association. During the three year audit period the relief association only wrote 17 checks. Although Act 118 includes provisions for the payment of normal and reasonable running expenses as may be appropriate to the business conduct of a relief association's affairs, the amount of accounting and tax preparation fees being paid to the fire company appears to be unreasonable since the amount of accounting and tax preparation expenses totaled nearly 20% of the total disbursements of the relief association (not including investments purchased).

As stipulated in Act 118, the primary purpose of a volunteer firefighters' relief association is to afford financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The payment, however, of accounting and tax preparation expenses of this magnitude appears to be inconsistent with the intent of Act 118, which was enacted to ensure that funds shall be available for the protection of volunteer firefighters' and their heirs.

The relief association officials should reevaluate the payment of accounting and tax preparation fees paid to the fire company and determine if the amount of this expense is appropriate, especially in light of the intent of Act 118 and the operating needs of the relief association. If accounting and tax preparation fees are continued, the relief association should clearly document the amount that similar services are being charged in the area. If expenditures are not authorized or otherwise properly meeting the purposes of Act 118, the same could be considered an unauthorized expenditure which could lead to a potential withhold of state aid. We will review this issue during our next audit for compliance with this observation.

HEMLOCK FARMS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Hemlock Farms Volunteer Firemen's Relief Association Governing Body:

Mr. Brandon Kennedy
President

Mr. Robert Palumbo
Vice President

Ms. Patricia Magie
Secretary

Ms. Jean Christian
Treasurer

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

Ms. Jo-Anna M. Donahue
Secretary
Blooming Grove Township

Ms. Theresa Koch
Secretary
Porter 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.