

COMPLIANCE AUDIT

The Three Springs Volunteer Firemen's Relief Association

Huntingdon County, Pennsylvania

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. Christopher Grace, President
The Three Springs Volunteer
Firemen's Relief Association
Huntingdon County

We have conducted a compliance audit of The Three Springs Volunteer Firemen's Relief Association (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.

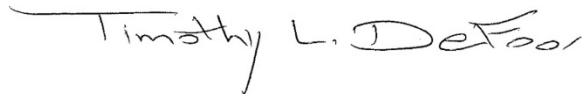
We were not able to obtain an independent confirmation of the investment balance directly from the financial institution. Therefore, while the relief association provided copies of investment statements that indicated that, as of December 31, 2021, the relief association had an investment balance with a fair value of \$63,568, we were not able to verify this investment 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, 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 – Untimely Receipts And Deposits Of State Aid

Finding No. 2 – Inadequate Minutes Of Meetings And Inadequate Relief Association Bylaws

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
September 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>2019</u> | <u>2020</u> | <u>2021</u> |
|-----------------------|---------------|-------------|-------------|-------------|
| Clay Township | Huntingdon | \$5,435 | \$5,448 | \$4,968 |
| Cromwell Township | Huntingdon | \$3,401 | \$3,274 | \$1,761 |
| Saltillo Borough | Huntingdon | \$1,397* | \$1,417* | \$1,253* |
| Springfield Township | Huntingdon | \$3,454 | \$3,470* | \$2,958 |
| Three Springs Borough | Huntingdon | \$1,904 | \$1,927 | \$1,691 |

* The 2019 state aid allocation received from Saltillo Borough was not deposited by the relief association until June 4, 2020, and the 2020 and 2021 state aid allocations were not deposited until June 21, 2022, as disclosed in Finding No. 1 in this report. Additionally, the 2020 state aid allocation received from Springfield Township was not deposited by the relief association until June 17, 2022, as disclosed in Finding No. 1 in this report.

Based on the relief association’s records, its total cash and investments as of December 31, 2021 were \$97,722, as illustrated below:

| | |
|----------------------------|-------------------------|
| Cash | \$ 34,154 |
| Fair Value of Investments | <u>63,568</u> |
| Total Cash and Investments | <u><u>\$ 97,722</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 \$89,256, 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>\$ 6,108</u> |
|--------------------|-----------------|

Fire Services:

| | |
|-----------------------|------------------|
| Equipment purchased | \$ 77,104 |
| Equipment maintenance | 5,090 |
| Training expenses | <u>200</u> |
| Total Fire Services | <u>\$ 82,394</u> |

Administrative Services:

| | |
|-------------------------------|---------------|
| Bond premiums | \$ 718 |
| Other administrative expenses | <u>36</u> |
| Total Administrative Services | <u>\$ 754</u> |

| | |
|--------------------|-------------------------|
| Total Expenditures | <u><u>\$ 89,256</u></u> |
|--------------------|-------------------------|

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:

Three Springs Volunteer Fire Company

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

THE THREE SRINGS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Receipts And Deposits Of State Aid

Condition: Although Saltillo Borough prepared and returned a Certification Form AG 385 for 2019, 2020 and 2021 by the March 31 annual filing date in accordance with Act 205, the borough did not distribute the 2019, 2020 and 2021 state aid in the amounts of \$1,397, 1,417, and \$1,253, respectively, to the relief association in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 16, 2019, September 22, 2020, and September 21, 2021, who forwarded the 2019 state aid to the relief association on June 4, 2020, and who forwarded the 2020 and 2021 state aid to the relief association on June 20, 2022, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). The relief association deposited the 2019 funds into a relief association account on June 12, 2022, and the 2020 and 2021 funds on June 21, 2022. Since there was no documentation indicating that the relief association attempted to retrieve the funds, the relief association did not document an attempt to ensure the funds were received and deposited timely.

In addition, the relief association did not deposit the 2020 state aid allocation it received from Springfield Township, in the amount of \$3,470, until June 17, 2022. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 22, 2020, who forwarded this state aid to the relief association on October 20, 2020, 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, the state aid allocation was erroneously deposited into the affiliated fire company's account. Therefore, the relief association did not ensure the funds were received and deposited timely into a relief association account. As a result of our audit, on June 17, 2022, the relief association deposited \$3,470 into a relief association account.

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.

THE THREE SRINGS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: The Relief Association Treasurer stated she was not aware that they did not receive the state aid allocation checks and she also stated that she was not aware it was her job to contact the municipality when the relief association does not receive all state aid allocation checks.

Effect: As a result of the untimely receipts and deposits, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely receipt and deposit of all future income received. 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.

Finding No. 2 – Inadequate Minutes Of Meetings And Inadequate Relief Association Bylaws

Condition: The relief association failed to maintain detailed minutes of meetings as required by the VFRA Act. Specifically, the relief association's minutes did not address all financial-related transactions that occurred during the audit period and the relief association officials failed to provide a membership attendance record for each meeting to ensure quorum requirements were met. In addition, meetings were not held/provided for the calendar year 2019.

In addition, the existing bylaws of the relief association do not contain all of the provisions required by Section 7415(c) of the VFRA Act. Specifically, the bylaws do not address the quorum requirements for regular and special meetings and the approval and payment of expenditures.

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.

THE THREE SRINGS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Section 7415(c) of the VFRA Act states that the relief association's bylaws shall:

- (2) State the notice requirements and procedure to be followed in calling meetings, as well as quorum requirements for regular and special meetings of the membership and for regular and special meetings of the body which governs the operations of the association between membership meetings, and shall designate that body, whether it be a board of directors, trustees or any similar body such as an executive committee. Unless otherwise provided for in the bylaws, powers and duties of officers, directors and trustees shall be those which normally pertain to such positions in nonprofit corporations. (Emphasis added.)

- (6) Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.

The relief association's bylaws at Article III, Section 1 states:

Regular meetings of this association shall be held in March and September of each year, the day to be selected by officers, of which all members shall be notified.

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

The special meeting shall be called at anytime by the President.

Cause: The Relief Association Treasurer stated that she was unaware how detailed the meeting minutes needed to be. The relief association officials did not provide a reason why the bylaws were not updated to include the quorum requirements, approval and payment of expenditures or why the meeting minutes were not held/provided.

Effect: Without holding regular meetings and maintaining detailed minutes of meetings and documentation that the quorum requirements were met, evidence that relief association business was presented before the membership for approval does not exist. As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

THE THREE SRINGS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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. We also recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act and properly authorize the operating procedures of the relief association so that membership attendance records are maintained to ensure the quorum requirements are met and proper approval for expenditures is obtained. 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 THREE SRINGS 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

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

The Three Springs Volunteer Firemen's Relief Association Governing Body:

Mr. Christopher Grace
President

Mr. Charles Clippinger
Vice President

Ms. Margaret E. Slates
Treasurer

THE THREE SRINGS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Ms. Linda Greenland
Secretary
Clay Township

Ms. Laurie Secrest
Secretary
Cromwell Township

Ms. Jessica M. Williams
Secretary
Saltillo Borough

Ms. Cheryl Cutshall
Secretary
Springfield Township

Ms. Stacy Kauffman
Secretary
Three Springs Borough

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.