

COMPLIANCE AUDIT

Clearfield Volunteer Firemen's Relief Association of the State of Pennsylvania Clearfield County For the Period January 1, 2021, to December 31, 2022

July 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Todd Kling, President
Clearfield Volunteer Firemen's Relief
Association of the State of Pennsylvania
Clearfield County

We have conducted a compliance audit of the Clearfield Volunteer Firemen's Relief Association of the State of Pennsylvania (relief association) for the period January 1, 2021, to December 31, 2022. 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 association 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.

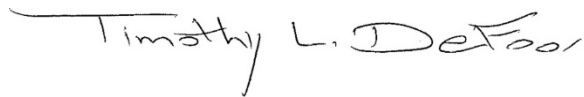
Based on our audit procedures, we conclude that, because of the significance of the matters described in Finding Nos. 1, 2 and 3 below and discussed later in this report, the relief association did not, in all significant respects, comply with applicable state laws, contracts, bylaws, and administrative 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, 2021, to December 31, 2022. 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 – Poor Stewardship Of Relief Association Assets And Related Party Transactions

Finding No. 2 – Failure To Deposit Proceeds From The Sale Of Jointly Purchased Vehicles

Finding No. 3 – Relief Association’s Federal Tax Identification Number Is Not Registered On Relief Association Cash And Investment Accounts

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
May 22, 2024

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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 relief association officers therefore have a responsibility to the public to conduct the relief association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all relief association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the relief 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2021</u>	<u>2022</u>
Clearfield Borough	Clearfield	\$25,062	\$29,762

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)

Based on the relief association's records, its total cash and investments as of December 31, 2022, were \$557,898, as illustrated below:

Cash	\$ 65,547
Fair Value of Investments	<u>492,351</u>
Total Cash and Investments	<u>\$ 557,898</u>

Based on the relief association's records, its total expenditures for the period January 1, 2021, to December 31, 2022, were \$102,410, 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	\$ 10,356
Death benefits	34,651
Relief benefits	<u>64</u>
Total Benefit Services	<u>\$ 45,071</u>
Fire Services:	
Equipment purchased	\$ 45,017
Equipment maintenance	426
Training expenses	<u>6,582</u>
Total Fire Services	<u>\$ 52,025</u>
Administrative Services:	
Bond premiums	\$ 797
Officer compensation	4,075
Other administrative expenses	<u>442</u>
Total Administrative Services	<u>\$ 5,314</u>
Total Expenditures	<u>\$ 102,410</u>

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

Clearfield Borough Fire Department

CLEARFIELD VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Poor Stewardship Of Relief Association Assets And Related Party Transactions

Condition: On August 31, 2022, the relief association purchased a 2022 Can-Am SSV Defender 6X6 UTV (herein referred to as “UTV”) and 2022 Carry On Trailer (herein referred to as “trailer”) for a combined purchase price of \$35,472. Meeting minutes from the affiliated fire company, which had no monetary interest in the UTV and trailer, indicate that less than a year after the purchase, the fire company decided they wanted the relief association to sell the UTV and trailer. Activity related to the transaction occurred as follows:

- The relief association received a check dated August 15, 2023, in the amount of \$10,000 from Lawrence Twp. Vol. Fire Co. #1.
- The relief association received two written bids, one for \$17,500 from Mountain Extreme Power Sports on August 17, 2023, and the other from Lawrence Twp. Vol. Fire Co. #1 for \$10,000, which was signed by the Lawrence Twp. Vol. Fire Co. #1 President and dated August 20, 2023.
- The relief association held a special meeting on August 20, 2023, where the relief association membership voted to sell the UTV and trailer to the Lawrence Twp. Vol. Fire Co. #1. The accepted bid was for \$10,000 (\$7,500 lower than the highest bid of \$17,500).
- The relief association deposited the \$10,000 check received on August 15, 2023, into its checking account on August 28, 2023.

Copies of the titles for the transfer of ownership of the UTV and the trailer to the Lawrence Twp. Vol. Fire Co. #1 were not provided to our auditors. According to Kelly Blue Book, the UTV had a trade in value and typical listing price ranging from \$26,700 to \$31,485; however, there was no resource available to determine the trade in value of the trailer.

We identified the following related party transaction:

- The President (father) and Secretary (mother) of the relief association at the time of the transactions were the parents of a son who was the President of the Lawrence Township Relief Association, the relief association affiliated with the Lawrence Twp. Vol. Fire Co. #1 (buyer), which was not documented in the relief association minutes as being disclosed during discussion of the sale.

In addition, the President (father) and Secretary (mother) of the relief association were the parents of another son, who is both a member of the relief association and the Clearfield Borough Fire Department, who made the motion to sell the UTV and the trailer at the relief association meeting.

CLEARFIELD VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

Section 7416(f) of the VFRA Act also states:

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.
- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service, including necessary training.
- (22) To pay for vehicles used for emergency response.
- (23) To purchase equipment used for emergency response.

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.

CLEARFIELD VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Prudent business practice dictates that the relief association should establish adequate internal control procedures to provide an effective accounting control over the relief association's equipment, ensure reasonable compensation is received dependent upon the item's age (possible life expectancy) and condition and ensure that all potential related party transactions should be disclosed to the membership and recorded in the minutes of relief association meetings. Also, all officers and/or members involved with a financial transaction that is affiliated to the related party transaction should disclose such affiliation and abstain from all votes concerning such transactions.

Cause: A relief association official indicated that the affiliated fire company wanted to sell the UTV and trailer although they did not have a monetary interest in the two apparatuses.

Effect: The transaction represents a poor stewardship of relief association funds. The failure to properly disclose the related party transaction may create conflicts of interest, which could result in the relief association being involved in less than arm's length financial transactions and an unnecessary reduction in relief association funds. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association be reimbursed \$16,700, which represents the difference between the lower end of the Kelly Blue Book trade in value for the UTV at the time of the sale and the amount received for the UTV and trailer. In addition, we recommend the immediate discontinuation of the practice of selling relief association owned equipment without proper membership approval/documentation in the relief association's meeting minutes. We further recommend that the relief association officials ensure that all potential related party transactions are disclosed timely to the membership and recorded in the minutes of relief association meetings. Furthermore, all officers and/or members involved with a business that is party to the related party transaction should abstain from all votes concerning such transactions. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

CLEARFIELD VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
STATE OF PENNSYLVANIA
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 Deposit Proceeds From The Sale Of Jointly Purchased Vehicles

Condition: In 2005, the relief association expended \$805 towards the joint purchase of a 2003 Ford F-250 with the affiliated fire company which had a total cost of \$24,220. The relief association entered into an agreement with the affiliated fire company dated June 17, 2009, where the relief association would receive the pro-rata share percentage of 3.32% if the vehicle was ever sold. In 2019, the jointly purchased vehicle was sold for an unknown amount and a bill of sale/documentation was not provided to support the sales price. In addition, the relief association did not receive and deposit its proportional ownership interest of the proceeds from the sale of the jointly purchased vehicle.

Additionally, in 2008, the relief association expended \$100,000 towards the joint purchase of a 2009 Spartan with the Borough of Clearfield which had a total cost of \$406,217. The relief association entered into an agreement with the Borough of Clearfield dated May 21, 2009, where the relief association would receive the pro-rata share percentage of 24.62% if the vehicle was ever sold. In 2022, the jointly purchased vehicle was sold for an unknown amount and a bill of sale/documentation was not provided to support the sales price. In addition, the relief association did not receive and deposit its proportional ownership interest of the proceeds from the sale of the jointly purchased vehicle.

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.

CLEARFIELD VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of funding. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold. Once the vehicle is sold, the relief association officials should closely monitor all sales to ensure proceeds are received and timely deposited into a relief association account.

Cause: A relief association official indicated that the current relief association officers had not been made aware of the joint purchase agreements for these vehicles.

Effect: The failure to receive and deposit the proceeds from the sale of the jointly purchased vehicles; one with the affiliated fire company and one with the Borough of Clearfield, places the relief association's ownership interest at greater risk. As a result, the relief association was unable to use the funds for general operating expenses or for investment purposes. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association be reimbursed in full for its pro-rata share of the proceeds from the sale of the jointly purchased vehicles and provide the bill of sales/documentation to support the sales transactions. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all future proceeds resulting from the sale of a jointly purchased vehicle 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 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.

CLEARFIELD VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Relief Association's Federal Tax Identification Number Is Not Registered
On Relief Association's Cash And Investment Accounts**

Condition: As of December 31, 2022, the relief association held Certificates of Deposit, Brokerage Accounts, Stocks, Savings, and Money Market accounts, with a total balance of \$554,875 which were inappropriately registered under a federal tax identification number that is not the relief association's current identification number. These cash and investment accounts represent 99 percent of the relief association's cash assets.

Criteria: Prudent business practice dictates that the relief association maintain ownership of all funds as a means of safeguarding its assets from unauthorized use or disposition.

Cause: The relief association officials did not provide a reason why this occurred.

Effect: As a result of the funds being inappropriately registered under another entity's federal tax identification number, these relief association assets were not properly safeguarded. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials secure ownership rights to all monetary assets immediately. This requirement can be accomplished by ensuring that all funds are registered under the relief association's federal tax identification number. 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: 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.

CLEARFIELD VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
STATE OF PENNSYLVANIA
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 1, 2 and 3 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are 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 316E Finance Building, Harrisburg, PA 17120.

CLEARFIELD VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE
STATE OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Clearfield Volunteer Firemen's Relief Association of the State of Pennsylvania Governing Body:

Mr. Todd Kling
President

Mr. Seth Mack
Vice President

Mr. John I. Steiner
Treasurer

Mr. Mason Strouse
Assistant Secretary

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association:

Ms. Betsy Houser
Secretary
Clearfield 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.