

COMPLIANCE AUDIT

Farrell Volunteer Firefighters' Relief Association

Mercer County, Pennsylvania
For the Period
January 1, 2018 to December 31, 2020

January 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Robert M. Renner, President
Farrell Volunteer Firefighters'
Relief Association
Mercer County

We have conducted a compliance audit of the Farrell Volunteer Firefighters' 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, 35 Pa.C.S. § 7411 *et seq.* ("VFRA Act"), as most recently amended by Act 91 of 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 copies of canceled or imaged checks from the relief association. While the relief association provided copies of bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by the VFRA Act.

Based on our audit procedures, we conclude that, because of the significance of the matter described in Findings Nos. 1 and 2 below and discussed later in this report and the effects, if any, of the matter described in the preceding paragraph, 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, 2018 to December 31, 2020. 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 – Failure To Comply With Terms Of Agreements That Resulted
In Unauthorized Expenditures

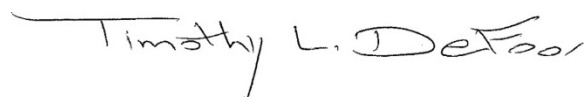
Finding No. 2 – Inappropriate Ownership Of Rescue Vehicle

Finding No. 3 – Inadequate Minutes Of Meetings

Finding No. 4 – Inadequate Relief Association Bylaws

We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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
December 7, 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 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.

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Farrell City	Mercer	\$13,821	\$11,979	\$12,160

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, 2020 was \$ 261,557, as illustrated below:

Cash	\$ 90,259
Fair Value of Investments	<u>171,298</u>
Total Cash and Investments	<u>\$ 261,557</u>

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$36,653, 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:

Fire Services:

Equipment purchased	\$ 7,312
Equipment maintenance	13,411
Training expenses	<u>80</u>
Total Fire Services	<u>\$ 20,803</u>

Administrative Services:

Officer compensation	\$ 2,100
Bond premiums	<u>434</u>
Total Administrative Services	<u>\$ 2,534</u>

Other Expenditures:

Unauthorized expenditures*	<u>\$ 13,316</u>
Total Expenditures	<u>\$ 36,653</u>

*The relief association had \$663 in unauthorized expenditures in the subsequent period, thus bringing the total unauthorized expenditures to \$13,979 as stated in Finding No. 1 in this report.

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:

Farrell Volunteer Fire Department

FARRELL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Comply With Terms Of Agreements That Resulted In Unauthorized Expenditures

Condition: The relief association expended funds for maintenance costs on two equipment items for which the relief association held an ownership interest during the current audit period that were authorized by the VFRA Act; however, two formal agreements for which the relief association is a party states that maintenance costs would be the responsibility of the other parties involved in the agreements. The expenditures are as follows:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
03/17/2018	1067	Maintenance vendor (for exhaust system)	\$ 190
04/27/2018	1071	Maintenance vendor (for compressor unit)	212
09/12/2018	1076	Maintenance vendor (for exhaust system)	2,090
12/12/2018	1085	Maintenance vendor (for exhaust system)	1,245
02/01/2019	1087	Maintenance vendor (for compressor unit)	1,549
11/26/2019	1099	Maintenance vendor (for compressor unit)	1,000
12/20/2019	1102	Maintenance vendor (for exhaust system)	7,030
Total			<u>\$ 13,316</u>

A similar condition occurred subsequent to the current audit period. The relief association expended additional funds for the following item:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
03/31/2021	1538	Maintenance vendor (for compressor unit)	<u>\$ 663</u>

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.

FARRELL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

The relief association had entered into a formal agreement on March 22, 2007 for a compressor unit. The agreement states that the maintenance and repair costs of the compressor unit would be the responsibility of the affiliated fire company.

The relief association had entered into another formal agreement on May 23, 2007 for a plymovent exhaust system. The agreement states that the maintenance and repair costs for this system would be the responsibility of the City of Farrell.

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.

The maintenance and repair costs were to be paid by parties other than the relief association according to the formal agreements and therefore do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not considered as authorized under the VFRA Act.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures should not have been paid by the relief association per the written agreements.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for other expenditures authorized by the VFRA Act. 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 \$13,979 (\$13,316 + \$663) for the unauthorized expenditures and that relief association officials ensure it adheres to the terms of any formal written agreements, which specify payment responsibility for good or services obtained. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

FARRELL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
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 – Inappropriate Ownership Of Rescue Vehicle

Condition: On May 4, 2009, the relief association entered into an agreement with the affiliated fire company and provided \$159,323 towards the total purchase price of \$253,000 for the purchase of a 2008 HME Pumper vehicle to carry personnel and safeguard equipment where the relief association will retain 100 percent ownership if the vehicle is ever sold; however, the title to the vehicle was inappropriately issued in the name of the fire company.

Criteria: Prudent business practice dictates that the relief association should maintain sole ownership of all equipment purchased by the relief association. As such, rescue vehicles purchased by the relief association are to be titled in the name of the relief association.

Cause: The relief association officials stated that they were not aware that the title was not issued in the relief association's name.

Effect: As a result of the rescue vehicle being inappropriately titled in the name of the fire company, this relief association asset was 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 rescue vehicle be titled in the name of the relief association. If such action is not taken, we recommend that the relief association be reimbursed \$159,323. 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.

FARRELL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – 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. Additionally, the meeting minutes did not include the signature of the recording secretary. Further, the relief association officials did not respond to our emails to confirm the validity of the meeting minutes to ensure the meeting minutes are not fraudulent, altered, etc.

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 relief association's bylaws at Article II, Section 1 states, in part:

Regular meetings of this association shall be held on the second Tuesday of each month immediately following the regular meeting of the affiliated fire department.

The relief association's bylaws at Article III, Section 3 also states, in part:

The secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note authorization by the membership of all association financial transactions and other pertinent business discussed at meetings.

Cause: Relief association officials indicated that they were unaware that maintaining an adequate amount of detailed minutes of meetings was required by the VFRA Act and the relief association's bylaws.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend that the relief association officials maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. In addition, all meeting minutes should be signed by the recording secretary and relief association officials should comply with requests to confirm the validity of the meeting minutes. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

FARRELL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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.

Finding No. 4 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the relief association do not clearly address all of the provisions required by Section 7415(c) of the VFRA Act considered to be beneficial to the operation of relief associations. Specifically, the bylaws do not address that members cannot be relief association officers if they are paid firefighters and that they also should not be listed on the membership roster. Additionally, the relief association is paying an officer salary of \$200 per year to the secretary, which is higher than the \$150 specified in the relief association bylaws.

Criteria: Section 7413 of the VFRA Act, in part, states:

The purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure, as far as circumstances will reasonably permit, that funds shall be available for the protection of volunteer firefighters and their heirs.

Therefore, simply being a member of a fire company does not in itself justify membership in a relief association. Prudent business practice requires relief associations to maintain documentation to support members' volunteer status.

FARRELL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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

- (1) Specify the requirements for securing membership, voting rights of different classes of members, if there be different classes, and conditions under which membership may be terminated.
- (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.
- (3) State the procedure to be followed in nominating and in electing officers, trustees, directors, and members of the executive committee, according to the provisions which have been made for establishment of those positions.
- (4) Contain such other provisions as may, to the membership, seem appropriate or necessary to the orderly conduct of affairs of the association.

Article VI: Benefits, Section 1 of the relief association bylaws states, in part:

For services rendered to the Farrell Vol. Firefighters' Relief Association the Secretary will be paid \$150.00 per year.

Furthermore, the relief association bylaws should authorize and clearly specify the criteria to be met before receiving death or relief benefits and the amount of any benefit payments. In addition, the bylaws should address the authorization of compensation to relief association officers.

Cause: Relief association officials indicated that they were unaware of the mandatory bylaw provisions established by the VFRA Act and the officer's compensation provisions established in the bylaws for the relief association secretary.

Effect: As a result of the mandatory provisions of the VFRA Act not being included in the bylaws and the failure to adhere to the amount of officer's compensation specified in the bylaws to be paid the relief association secretary, it appears that the relief association may have conducted its affairs without proper authorization.

FARRELL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We 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, including the proper payment amount of officer's compensation. 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.

FARRELL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions such as that reported by Finding Nos. 1 and 2 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 327 Finance Building, Harrisburg, PA 17120.

FARRELL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Farrell Volunteer Firefighters' Relief Association Governing Body:

Mr. Robert M. Renner
President

Mr. Anthony Seltzer
Vice President

Mr. Jonathon Laird
Secretary

Mr. Marc Mucroski
Treasurer

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

Ms. Barbara Mosley
City Clerk
Farrell City

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.