

COMPLIANCE AUDIT

Cherry Tree Volunteer Fire Company Relief Association

Indiana County, Pennsylvania

For the Period

January 1, 2021, to December 31, 2023

September 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**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, 2021, to December 31, 2023. 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 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 objectives. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, for the period January 1, 2021, to December 31, 2023:

- The relief association took appropriate corrective action to address one of the four findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the three remaining findings contained in our prior audit report, as listed below, and discussed in the Status of Prior Findings section of this report.
- Because of the significance of the matters described in Finding Nos. 1 and 2 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. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

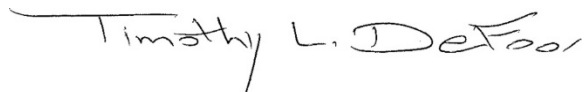
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings And Relief Association Bylaws

Finding No. 4 – Unauthorized Expenditure

Three of the four audit findings contained in this report cite conditions that existed in the operation of the relief association during the prior audit period and were not corrected during the current audit period. 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.



Timothy L. DeFoor
Auditor General
September 6, 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Burnside Township	Clearfield	\$1,678	\$2,039	\$1,937
Cherry Tree Borough	Indiana	\$1,193	\$1,140	\$1,135
Montgomery Township	Indiana	\$2,317	\$2,681	\$2,622

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 as of December 31, 2023, was \$6,248, as illustrated below:

Cash	<u>\$ 6,248</u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2021, to December 31, 2023, were \$23,570, 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>\$ 3,085</u>
Fire Services:	
Equipment purchased	\$ 4,614
Equipment maintenance	3,697
Training expenses	<u>1,140</u>
Total Fire Services	<u>\$ 9,751</u>
Administrative Services:	
Bond premiums	\$ 250
Other administrative expenses	45
Total Administrative Services	<u>\$ 295</u>
Other Expenditures:	
Undocumented expenditures – See Finding No. 2	\$ 8,713
Unauthorized expenditure – See Finding No. 4	<u>1,726</u>
Total Other Expenditures	<u>\$ 10,439</u>
Total Expenditures	<u>\$ 23,570</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:

Cherry Tree Volunteer Fire Company

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 four prior audit findings and recommendations, as follows:

- Untimely Receipt And Deposit Of State Aid

By timely receiving and depositing all income received.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with three of the four prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure To Deposit Proceeds From Equipment Sold

Although the relief association received reimbursement of \$4,000 from the affiliated fire company for the proceeds from the sale of equipment in the prior audit period, the relief again failed to deposit proceeds from the sale of a jointly purchased vehicle in the current audit period as further disclosed in Finding No. 1 of this report.

- Undocumented Expenditures

Although the relief association received reimbursement of \$600 from the affiliated fire company for the undocumented expenditures that were made in the prior audit period, the relief association again failed to provide adequate documentation to support all expenditures in the current audit period as further disclosed in Finding No. 2 of this report.

- Inadequate Minutes Of Meetings

We are concerned by the relief association's failure to correct those previously reported audit findings. The relief association management should strive to implement the recommendations and corrective actions noted in this audit report.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

Condition: Although the relief association received reimbursement from the affiliated fire company for the proceeds from the sale of equipment in the prior audit period, the relief again failed to deposit proceeds from the sale of a jointly purchased vehicle in the current audit period. In 2012, the relief association expended \$30,421 towards the joint purchase of a 1992 International Rescue Vehicle with the affiliated fire company which had a total cost of \$53,000. The relief association entered into an agreement with the affiliated fire company dated January 3, 2015, where the relief association would receive 100% of the purchase price if the vehicle was ever sold. During a special meeting of the relief association on July 21, 2022, the vehicle was approved to be sold back to the affiliated fire company for \$1 and to place the vehicle up for sale with an asking price in the range of \$30,000 to \$50,000. On August 1, 2022, the relief association sold the vehicle back to the affiliated fire company for \$2. In 2022, the jointly purchased vehicle was sold by the affiliated fire company for an unknown amount and a bill of sale/documentation was not provided to support the sales price or purchaser. Based on these factors, the relief association did not receive and deposit its proportional ownership interest of the proceeds due 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.

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 agreement for this vehicle.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The failure to receive and deposit the proceeds from the sale of a jointly purchased vehicle with the affiliated fire company 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 proceeds from the sale of the jointly purchased vehicle and provide the bill of sale/documentation to support the sales transaction. If the sales price of the vehicle is not confirmed, the relief association should receive reimbursement of its original contribution of \$30,421. We also recommend the relief association officials discontinue the practice of selling equipment for a less than fair value and that the relief association establish accounting and internal control procedures to ensure that the full amount due for all future proceeds resulting from the sale of a jointly purchased vehicle are timely deposited in 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.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

Condition: Although the relief association received reimbursement from the affiliated fire company for the undocumented expenditures that were made in the prior audit period, the relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
12/29/2021	777	Property owner	\$ 1,676
02/28/2022	778	Property owner	1,606
02/28/2022	780	Fuel vendor	2,350
03/16/2022	779	Property owner	981
04/28/2022	783	Property owner	1,600
01/04/2023	791	Affiliated fire company	500
Total			<u>\$ 8,713</u>

In addition, subsequent to the audit period, the relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$269 to a utility vendor on March 8, 2024.

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 indicated that these vendors did not provide receipts and documentation.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Lack of supporting documentation, such as invoices, itemized receipts, and detailed minutes of meetings, made it impossible to determine if the expenditures were 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. Furthermore, the relief associations future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$8,982 for the undocumented expenditures. 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 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. 3 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings And Relief Association Bylaws

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 meeting minutes did not contain an attendance record, or a sign-in sheet of members present to verify those members who participated in the meeting ensured a quorum of membership was present and the relief association business was conducted before the membership for approval. In addition, the meeting minutes were not signed and dated by the recording officer and the relief association officials did not respond to our requests for verification of meeting minutes. Furthermore, the existing bylaws of the relief association contains language to conduct business pertaining to the disbursement, investment, and purchase of funds that is based on Act 84 of June 11, 1968. The relief association has not updated the bylaws to govern their organization to meet the requirements set forth in the VFRA Act.

A similar condition was noted in our prior audit report.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 2, Section 1 states:

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

In addition, the relief association’s bylaws at Article 3, Section 3 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 all other pertinent business discussed at the meetings.

Furthermore, the relief association’s bylaws at Article 5, Section 1 states:

Funds of this association shall not be expended for any purpose other than those authorized by the provisions of Act 84 of 1968 and the association bylaws. All expenditures must be approved by a majority vote at an association meeting and duly recorded in the minutes.

Finally, the relief association’s bylaws at Article 7, Section 1 states, in part:

Funds of this association may be invested in any security authorized by the provisions of section 6(c) of Act 84.

In addition, prudent business practice dictates that the relief association officials should ensure that meeting minutes are signed and dated and that relief association officials update and maintain the relief association bylaws to reflect the current requirements of the VFRA Act.

Cause: The relief association officials indicated that they were unaware that meeting minutes needed to be signed and attendance recorded. In addition, relief association officials indicated that they were unaware that the relief association bylaws needed to be updated.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: Without maintaining detailed minutes of meetings that are signed and dated and include an attendance record, evidence that relief association business was presented before the membership for approval does not exist. As a result of the relief association not updating the bylaws to meet the appropriate requirements, the relief association may have conducted its affairs without proper authorization.

Recommendation: We again recommend that the relief association officials maintain detailed minutes of meetings as required by the VFRA Act and the relief association’s bylaws, evidencing the discussion and approval of all financial-related business conducted by the relief association and whether quorum requirements were met. We also recommend that the relief association officials ensure that all meeting minutes are signed and dated by the Secretary of the Relief Association to ensure the validity of the meeting minutes. In addition, we recommend that the relief association officials remove the language referring to Act 84 by updating the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act. 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: We are concerned by the relief association’s failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 4 – Unauthorized Expenditure

Condition: The relief association expended \$1,726 for heating oil for the affiliated fire company owned building during the current audit period that is not authorized by the VFRA Act.

Criteria: 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.
- (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.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

In addition, Section 7418(b) of the VFRA Act states:

- (b) Findings -- If the Auditor General finds that money received by a volunteer firefighters' relief association has been expended for a purpose other than one authorized by this subchapter, the commissioner, upon receiving notice of the finding from the auditor general, shall decline to approve payment to the volunteer firefighters' relief association until the improperly expended amount has been reimbursed to the relief association fund.

Costs associated with the purchase of heating oil for the affiliated fire company owned building does not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under the VFRA Act.

Cause: The relief association officials indicated that they were unaware that the expenditure for the heating oil was not authorized by the VFRA Act.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by the VFRA Act. In addition, because of stipulations within the VFRA Act, failure to obtain reimbursement of the improperly expended funds will result in a withholding of future state aid fund disbursements until the improperly expended fire relief association monies identified in the finding have been reimbursed to the relief association.

Recommendation: We recommend that the relief association be reimbursed \$1,726 for the unauthorized expenditure and that relief association officials become familiar with Section 7416(f) of the VFRA Act to aid them in determining the propriety of future expenditures. All supporting documentation verifying the receipt of reimbursement for the unauthorized expenditure should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 316-E Finance Building, Harrisburg, PA 17120. 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
POTENTIAL WITHHOLD OF STATE AID

Conditions of repeat findings 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 316E Finance Building, Harrisburg, PA 17120.

CHERRY TREE VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

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. Seline Perrone
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.