

# COMPLIANCE AUDIT

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## Loretto Community Fireman's Relief Association of Loretto, PA Cambria County, Pennsylvania For the Period January 1, 2021, to December 31, 2023

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October 2024



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. Greg Farabaugh, President  
Loretto Community Fireman's Relief  
Association of Loretto, PA  
Cambria County

We have conducted a compliance audit of the Loretto Community Fireman's Relief Association of Loretto, PA (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 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.

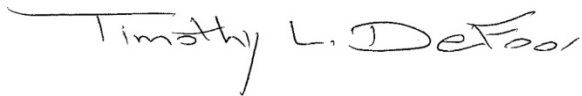
Based on our audit procedures, we conclude that, for the period January 1, 2021, to December 31, 2023, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Erroneous Deposits Of Funds

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor  
Auditor General  
September 19, 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 Code<sup>1</sup>, and the Volunteer Firefighters' Relief Association Act<sup>2</sup> ("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 Law<sup>3</sup> (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>
Allegheny Township	Cambria	\$5,575	\$6,763	\$6,664
Loretto Borough	Cambria	\$4,030	\$4,562	\$4,522

<sup>1</sup> 72 P.S. § 403 (as last amended by Act 44 of 2017).

<sup>2</sup> 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

<sup>3</sup> 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 \$22,829, as illustrated below:

Cash	<u>\$ 22,829</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 \$59,379, 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.<sup>4</sup> **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>\$ 12,112</u>
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#### Fire Services:

Equipment purchased	\$ 41,940
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Equipment maintenance	334
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Training expenses	<u>1,640</u>
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Total Fire Services	<u>\$ 43,914</u>
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#### Administrative Services:

Bond premiums	<u>\$ 250</u>
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#### Other Expenditures:

Miscellaneous – See Finding No. 3	\$ 199
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Unauthorized expenditures – See Finding No. 2	<u>2,904</u>
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Total Other Expenditures	<u>\$ 3,103</u>
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Total Expenditures	<u><u>\$ 59,379</u></u>
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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:

Loretto Community Volunteer Fire Company

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

LORETTO COMMUNITY FIREMAN'S RELIEF ASSOCIATION OF LORETTO, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle**

Condition: In 2005, the relief association expended \$18,000 towards the joint purchase of a tanker truck with the affiliated fire company which had a total cost of \$113,412. The relief association entered into an agreement with the affiliated fire company dated August 2005, where the relief association would receive the pro-rata share percentage of 15.87% if the vehicle was ever sold. In 2021, the jointly purchased vehicle was sold for \$81,000; however, 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.

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 financing. 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: Relief association officials did execute a formal written agreement with the fire company; however, failed to ensure that it received and deposited its proportional ownership interest due from the proceeds of the sale of a jointly purchased vehicle with the affiliated fire company into a relief association account. The relief association officials indicated that they did not realize they were to be reimbursed for their proportional ownership interest in the vehicle.

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.

LORETTO COMMUNITY FIREMAN’S RELIEF ASSOCIATION OF LORETTO, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

**Recommendation:** We recommend that the relief association be reimbursed \$12,855 for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle. 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 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$12,855 for the relief association’s pro-rata share of the proceeds from the sale of the jointly purchased vehicle on June 25, 2024.

**Auditor’s Conclusion:** We reviewed documentation verifying that the reimbursement of \$12,855 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

**Finding No. 2 – Unauthorized Expenditures**

**Condition:** The relief association expended funds for the following items during the current audit period that are not authorized by the VFRA Act:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
11/29/2021	1033	Payment of sales tax	\$ 117
01/16/2022	1037	Payment of sales tax	5
02/23/2023	1054	Affiliated fire company’s bond policy premium	250
10/23/2023	1063	Payment of sales tax	20
11/30/2023	1065	Affiliated fire company’s commercial insurance policy premium	2,512
Total			<u>\$ 2,904</u>

Subsequent to the period under review, on January 15, 2024, the relief association again expended funds to pay for the affiliated fire company’s commercial insurance policy premium in the amount of \$2,563.



LORETTO COMMUNITY FIREMAN'S RELIEF ASSOCIATION OF LORETTO, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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.

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 payment of sales tax and the affiliated fire company's bond policy and commercial insurance policy premiums do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

Cause: The relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by the VFRA Act.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by the VFRA Act.

Recommendation: We recommend that the relief association be reimbursed \$5,467 for the unauthorized expenditures 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. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

LORETTO COMMUNITY FIREMAN'S RELIEF ASSOCIATION OF LORETTO, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the affiliated fire company agreed that the \$3,285 of the affiliated fire company's funds that were erroneously deposited into the relief association's account during years 2022 and 2023 (See Finding No. 3) may be applied as a partial reimbursement towards these unauthorized expenditures. Also, on June 25, 2024, the relief association deposited the remaining balance due of \$2,182 for full reimbursement of the unauthorized expenditures.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$5,467 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

**Finding No. 3 – Erroneous Deposits Of Funds**

Condition: During 2022 and 2023, the relief association erroneously deposited funds totaling \$3,484 into the relief association's checking account that should have been deposited into the affiliated fire company's account.

Criteria: Relief association funds should not be commingled with any other organization's funds in order to maintain effective control of its assets. In addition, adequate accounting and internal controls should include procedures to prevent erroneous deposits of funds into the relief association's account.

Cause: The relief association officials were unaware that the funds received from the municipality were fire tax funds intended for the affiliated fire company and were not funds intended for the relief association.

Effect: The deposits of the affiliated fire company's funds into the relief association's account reduces the relief association's control over cash assets.

Recommendation: We recommend that the relief association reimburse the affiliated fire company \$3,484 for the erroneous deposits. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association deposits. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

LORETTO COMMUNITY FIREMAN'S RELIEF ASSOCIATION OF LORETTO, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference. During the current audit period, on February 26, 2023, the relief association had reimbursed the affiliated fire company \$199 for a portion of the affiliated fire company's funds that had been erroneously deposited into the relief association's account. In June 2024, the affiliated fire company agreed that the remaining balance of \$3,285 of the affiliated fire company's funds that were erroneously deposited into the relief association's account was to be applied as a partial reimbursement of the relief association's unauthorized expenditures that are addressed in Finding No. 2.

Auditor's Conclusion: We reviewed documentation verifying that the \$3,484 was paid. Compliance for erroneous deposits made during the next audit period will be subject to verification through our next audit.

LORETTO COMMUNITY FIREMAN'S RELIEF ASSOCIATION OF LORETTO, PA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

Loretto Community Fireman's Relief Association of Loretto, PA Governing Body:

**Mr. Greg Farabaugh**  
President

**Mr. Aaron Stoltz**  
Vice President

**Ms. Jessica Stoltz**  
Secretary

**Ms. Mary Eileen Farabaugh**  
Treasurer

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

**Ms. Debra Hoover**  
Secretary  
Allegheny Township

**Ms. Maxine Shoff**  
Secretary  
Loretto Borough

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).