

COMPLIANCE AUDIT

Volunteer Fireman's Relief Association
of Bear Lake Fire Department,
Warren County, Bear Lake, PA
Pennsylvania
For the Period
January 1, 2021, to December 31, 2022

March 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Tim Willis, President
Volunteer Fireman's Relief Association of
Bear Lake Fire Department, Warren County,
Bear Lake, PA

We have conducted a compliance audit of the Volunteer Fireman's Relief Association of Bear Lake Fire Department, Warren County, Bear Lake, PA (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.

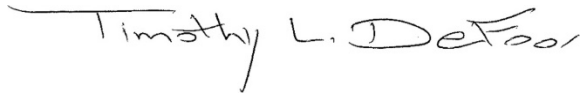
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief association funds complies with applicable state laws, contracts, bylaws, and administrative 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, for the period January 1, 2021, to December 31, 2022, 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 – Inadequate Signatory Authority For The Disbursement Of Funds

Finding No. 2 – Relief Association Checking Account Inappropriately Registered Under Affiliated Fire Service Organization's Federal Tax Identification Number

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 horizontal line above the first name.

Timothy L. DeFoor
Auditor General
February 14, 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.

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

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

³ 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2021</u>	<u>2022</u>
Bear Lake Borough	Warren	\$ 541	\$ 613
Freehold Township	Warren	\$2,803	\$2,932

Based on the relief association’s records, its total cash as of December 31, 2022, was \$10,597, as illustrated below:

Cash	<u>\$ 10,597</u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2021, to December 31, 2022, were \$1,852, 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	<u>\$ 1,652</u>
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Administrative Services:

Bond premiums	<u>\$ 200</u>
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Total Expenditures	<u><u>\$ 1,852</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:

Bear Lake Volunteer Fire Department

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

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF BEAR LAKE FIRE
DEPARTMENT, WARREN COUNTY, BEAR LAKE, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we found that all eight checks drawn on the relief association's checking account contained the signature of the Assistant Treasurer, who was not an authorized officer as stated in the relief association's bylaws, in addition to the signature of the Relief Association Treasurer/disbursing officer. The same issue occurred for all four checks we reviewed in the post audit period. Issuing checks without the signature of a second authorized relief association officer is in violation of the VFRA Act and negates the relief association's internal control over the disbursement process.

Criteria: Section 7415(c)(3) of the VFRA Act states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

The relief association's bylaws at Article 7, Section 1 states, in part:

The executive officers of this Association shall consist of President, Vice-President, Secretary, and Treasurer.

In addition, the relief association's bylaws at Article 8, Section 1 states:

Signatures – There must be at least two (2) signatures of officers to bind this association by formal contract or to issue negotiable instruments. One (1) of those signatures must be that of the disbursement [*sic*] officer.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two authorized relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: The relief association officials stated they were unaware that the Assistant Treasurer was not allowed to sign checks.

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF BEAR LAKE FIRE
DEPARTMENT, WARREN COUNTY, BEAR LAKE, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As a result of the relief association officer issuing checks with only one authorized signature, assets were placed at greater risk as expenditures were being made without a second authorized relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second authorized signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two authorized relief association officers, one of whom shall be the Treasurer/disbursing officer, are included on all relief association negotiable instruments as defined by the VFRA Act and the relief association's bylaws. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

Finding No. 2 – Relief Association Checking Account Inappropriately Registered Under Affiliated Fire Service Organization's Federal Tax Identification Number

Condition: As of December 31, 2022, the relief association held a checking account with a total value of \$10,597 which was inappropriately registered under the fire company's federal tax identification number rather than the relief association's identification number. This cash account represents 100 percent of the relief association's cash assets.

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

Cause: The relief association officials stated that they were not aware that the checking account was registered in the name of the affiliated fire company and under the affiliated fire company's federal tax identification number.

Effect: As a result of the investments being inappropriately registered under another entity's name and federal tax identification number, these relief association assets were not properly safeguarded.

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF BEAR LAKE FIRE
DEPARTMENT, WARREN COUNTY, BEAR LAKE, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials secure ownership rights to all its monetary assets. This requirement can be accomplished by ensuring that all relief association investments are registered under the name of the relief association and 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: Compliance will be subject to verification through our next audit.

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF BEAR LAKE FIRE
DEPARTMENT, WARREN COUNTY, BEAR LAKE, PA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Volunteer Fireman's Relief Association of Bear Lake Fire Department, Warren County, Bear
Lake, PA Governing Body:

Mr. Tim Willis
President

Ms. Mackenzie Dunn
Vice President

Ms. Melissa Willis
Secretary

Ms. Bethany Watkins
Treasurer

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

Ms. Jenifer Williams
Secretary
Bear Lake Borough

Ms. Sally Pondel
Secretary
Freehold Township

VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF BEAR LAKE FIRE
DEPARTMENT, WARREN COUNTY, BEAR LAKE, PA
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