

COMPLIANCE AUDIT

The Friendship Hose Company
No. 1, Falls Creek Volunteer Firemans'
Relief Association, Borough of Falls Creek,
Jefferson County, State of Pennsylvania
For the Period
January 1, 2020, to December 31, 2022

August 2023



Commonwealth of Pennsylvania
Department of the Auditor General
Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Paul L. Miller, President
The Friendship Hose Company No. 1,
Falls Creek Volunteer Firemans' Relief
Association, Borough of Falls Creek,
Jefferson County, State of Pennsylvania

We have conducted a compliance audit of The Friendship Hose Company No. 1, Falls Creek Volunteer Firemans' Relief Association, Borough of Falls Creek, Jefferson County, State of Pennsylvania (relief association) for the period January 1, 2020, 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 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.

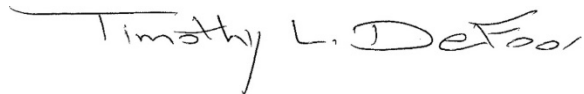
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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, 2020, to December 31, 2022:

- The relief association took appropriate corrective action to address the findings contained in our prior audit report.
- 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 finding listed below and discussed later in this report.

Finding – Inadequate Signatory Authority For The Disbursement Of Funds And
Inadequate Internal Controls

The contents of this report were discussed with the management of the relief association and, where appropriate, their response has 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
July 20, 2023

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	5
Finding and Recommendation:	
Finding – Inadequate Signatory Authority For The Disbursement Of Funds And Inadequate Internal Controls.....	6
Report Distribution List	8

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.

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>2020</u>	<u>2021</u>	<u>2022</u>
Falls Creek Borough	Jefferson	\$4,410	\$3,962	\$4,809
Washington Township	Jefferson	\$7,680	\$6,851	\$8,340
Winslow Township	Jefferson	\$1,233	\$1,070	\$1,855

Based on the relief association’s records, its total cash and investments as of December 31, 2022, were \$56,377, as illustrated below:

Cash	\$ 39,889
Fair Value of Investments	<u>16,488</u>
Total Cash and Investments	<u><u>\$ 56,377</u></u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$26,380, 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	\$	3,642
Death benefits		200
Tokens of sympathy and goodwill		50
Total Benefit Services	\$	<u>3,892</u>

Fire Services:

Equipment purchased	\$	15,389
Equipment maintenance		6,125
Training expenses		429
Total Fire Services	\$	<u>21,943</u>

Administrative Services:

Bond premiums	\$	200
Officer compensation		300
Total Administrative Services	\$	<u>500</u>

Other Expenditures:

Unauthorized sales tax paid *	\$	<u>45</u>
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Total Expenditures	\$	<u><u>26,380</u></u>
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* During calendar years 2020 and 2022, the relief association made insignificant disbursements in the amounts of \$42 and \$3, respectively, for the unauthorized payment of sales tax on purchases that were authorized under the VFRA Act. We disclosed these issues to relief association officials on May 15, 2023, but we did not include a finding in this report due to the relatively low dollar amount.

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:

Friendship Hose Company No. 1, Falls Creek, Pennsylvania

THE FRIENDSHIP HOSE COMPANY NO. 1, FALLS CREEK VOLUNTEER FIREMANS'
RELIEF ASSOCIATION, BOROUGH OF FALLS CREEK, JEFFERSON COUNTY,
STATE OF PENNSYLVANIA
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has complied with the prior audit findings and recommendations, as follows:

- Undocumented Expenditure

By providing adequate documentation to evidence the propriety of the undocumented expenditure that was made in the prior audit period.

- Unauthorized Expenditures

By receiving reimbursement of \$819 from the affiliated fire company for the unauthorized expenditures made in the prior audit period.

THE FRIENDSHIP HOSE COMPANY NO. 1, FALLS CREEK VOLUNTEER FIREMANS'
RELIEF ASSOCIATION, BOROUGH OF FALLS CREEK, JEFFERSON COUNTY,
STATE OF PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – Inadequate Signatory Authority For The Disbursement Of Funds And Inadequate Internal Controls

Condition: During the current audit engagement, we identified 19 out of 40 checks drawn on the relief association's checking account that did not contain the proper signatory authority. One check contained only the signature of one officer (Relief Association Treasurer), even though two signatures are required by the VFRA Act and the relief association's bylaws. Thirteen checks contained the signatures of two relief association officers (Relief Association Treasurer and Relief Association Secretary); however, the Relief Association President is to co-sign checks with the Relief Association Treasurer as required by the relief association's bylaws.

In addition, the relief association failed to establish adequate internal controls by using a signature stamp to affix the President of the Relief Association's signature to checks without controls over the custody of the stamp. During our audit period, the signature stamp was used on five of the 40 checks issued by the relief association.

Issuing checks with the signature of an unauthorized relief association officer or issuing checks without the actual signature of the relief association officer 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 6, Section 4 states, in part:

It shall be the duty of the Treasurer... He shall not disburse any money except on a check jointly signed [*sic*] by the President as ordered by the association.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two 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 and signing the checks.

THE FRIENDSHIP HOSE COMPANY NO. 1, FALLS CREEK VOLUNTEER FIREMANS'
RELIEF ASSOCIATION, BOROUGH OF FALLS CREEK, JEFFERSON COUNTY,
STATE OF PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: The relief association officials stated these errors occurred because they incorrectly assumed that checks were able to be signed as they are signed within the affiliated fire department. In addition, the relief association officials were not aware that a signature stamp was not permitted to be used to sign checks.

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets. As a result of the relief association 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 officers, one of whom shall be the Treasurer, are included on all relief association negotiable instruments as defined by the VFRA Act. We also recommend that the relief association officials adopt internal control procedures which require that all checks be signed and discontinue the use of the signature stamp. 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.

THE FRIENDSHIP HOSE COMPANY NO. 1, FALLS CREEK VOLUNTEER FIREMANS'
RELIEF ASSOCIATION, BOROUGH OF FALLS CREEK, JEFFERSON COUNTY,
STATE OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Friendship Hose Company No. 1, Falls Creek Volunteer Firemans' Relief Association,
Borough of Falls Creek, Jefferson County, State of Pennsylvania Governing Body:

Mr. Paul L. Miller, Jr.
President

Mr. Wesley Burkett
Vice President

Ms. Jena Zimmerman
Secretary

Mr. Don Liedl
Treasurer

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

Ms. Connie Buskey
Secretary
Falls Creek Borough

Ms. Sarah Anderson
Secretary
Washington Township

Ms. Mary M. Greeley
Secretary
Winslow Township

THE FRIENDSHIP HOSE COMPANY NO. 1, FALLS CREEK VOLUNTEER FIREMANS'
RELIEF ASSOCIATION, BOROUGH OF FALLS CREEK, JEFFERSON COUNTY,
STATE OF PENNSYLVANIA
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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.