

COMPLIANCE AUDIT

Reynoldsville Volunteer Fireman Relief Association, Inc. Jefferson County, Pennsylvania For the Period January 1, 2020, to December 31, 2022

June 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Andrew Flock, President
Reynoldsville Volunteer Fireman
Relief Association, Inc.
Jefferson County

We have conducted a compliance audit of the Reynoldsville Volunteer Fireman Relief Association, Inc. (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 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.

Based on our audit procedures, we conclude that, for the period January 1, 2020, 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 finding listed below and discussed later in this report.

Finding – Inadequate Signatory Authority For The Disbursement Of Funds

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.

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
April 28, 2023

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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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Reynoldsville Borough	Jefferson	\$10,481	\$9,408	\$10,785
Washington Township	Jefferson	\$ 960	\$ 856	\$ 1,043
Winslow Township	Jefferson	\$ 6,700	\$5,884	\$ 6,500

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, 2022, were \$90,452, as illustrated below:

Cash	\$ 28,201
Fair Value of Investments	<u>62,251</u>
Total Cash and Investments	<u>\$ 90,452</u>

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$47,035, 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>\$ 12,504</u>
Fire Services:	
Equipment purchased	\$ 13,040
Equipment maintenance	20,723
Training expenses	<u>260</u>
Total Fire Services	<u>\$ 34,023</u>
Administrative Services:	
Bond premiums	\$ 300
Other administrative expenses	<u>208</u>
Total Administrative Services	<u>\$ 508</u>
Total Expenditures	<u>\$ 47,035</u>

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:

Reynoldsville Volunteer Fire Company Inc.

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

REYNOLDSVILLE VOLUNTEER FIREMAN RELIEF ASSOCIATION, INC.
FINDING AND RECOMMENDATION

Finding – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 26 checks out of the 57 checks drawn on the relief association’s checking account and two checks in the post audit period that did not contain proper signatory authority. Issuing checks with the signature of an unauthorized individual and/or without a second authorized individual negates the relief association’s internal control over the disbursement process.

Of the 57 checks issued during the audit period, only 26 checks were available for review. The other 31 checks cleared the bank electronically and were unavailable for our review. Checks require two signatures by authorized relief association individuals; we found, however, the following improper signatures:

- Ten contained the signature of only the Relief Association’s Treasurer.
- Four were issued that contained only the signature of a non-relief association individual who was the affiliated fire company’s treasurer.
- One contained the signature of only the Relief Association’s President.
- Eleven contained the signatures of the Relief Association’s Treasurer and a non-relief association individual who was the affiliated fire company’s treasurer.

Additionally, the two checks issued after the audit period only had the signature of the Relief Association’s Treasurer.

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.

In addition, the relief association’s bylaws at Article VII, Section 1 states, in part:

The signatures of at least two officers, one of whom shall be the Treasurer, shall be required for the issuance of relief association checks, withdrawal from the association savings account, the redemption of any relief association investments or any other negotiable instrument issued by the association.

REYNOLDSVILLE VOLUNTEER FIREMAN RELIEF ASSOCIATION, INC.
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, prudent business practice dictates that the relief association have adequate internal control procedures in place to ensure the signatures of appropriate 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 with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: The relief association officials indicated that due to the passing of the previous treasurer and changes within the relief association organization that it was difficult to obtain both signatures. The relief association officials provided no reason why a non-relief association individual signed checks.

Effect: As a result of the relief association officer issuing checks with only one authorized signature and/or with an unauthorized signature, assets were placed at greater risk as expenditures were being made without a second 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, 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.

REYNOLDSVILLE VOLUNTEER FIREMAN RELIEF ASSOCIATION, INC.
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Reynoldsville Volunteer Fireman Relief Association, Inc. Governing Body:

Mr. Andrew Flock
President

Mr. Tony Rhed
Secretary

Mr. Darren Scolese
Treasurer

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

Ms. Jacqueline K. Dixon
Secretary
Reynoldsville Borough

Ms. Sarah Anderson
Secretary
Washington Township

Ms. Mary M. Greeley
Secretary
Winslow 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.