

COMPLIANCE AUDIT

Vernon Central Hose Company Firemen's Relief Association Crawford County, Pennsylvania For the Period January 1, 2019, to December 31, 2022

July 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Don Grinnell, President
Vernon Central Hose Company
Firemen's Relief Association
Crawford County

We have conducted a compliance audit of the Vernon Central Hose Company Firemen's Relief Association (relief association) for the period January 1, 2019, 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.

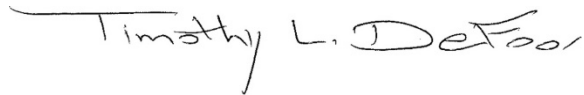
Based on our audit procedures, we conclude that, for the period January 1, 2019, to December 31, 2022, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure 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
And Incorrect Signature Card At Financial Institution

Finding No. 2 – Inadequate Minutes Of Meetings

Finding No. 3 – Failure To Maintain A Complete And Accurate Membership
Roster

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.



Timothy L. DeFoor
Auditor General
May 10, 2023

CONTENTS

	<u>Page</u>
Background	1
Findings and Recommendations:	
Finding No. 1 – Inadequate Signatory Authority For The Disbursement Of Funds And Incorrect Signature Card At Financial Institution.....	4
Finding No. 2 – Inadequate Minutes Of Meetings.....	6
Finding No. 3 – Failure To Maintain A Complete And Accurate Membership Roster	7
Report Distribution List	9

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>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Union Township	Crawford	\$ 4,672	\$ 4,708	\$ 4,212	\$ 4,671
Vernon Township	Crawford	\$16,031	\$16,193	\$14,416	\$34,316

Based on the relief association’s records, its total cash as of December 31, 2022, was \$59,101, as illustrated below:

Cash	<u>\$ 59,101</u>
------	------------------

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2022, were \$75,871, 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>\$ 15,830</u>
Fire Services:	
Equipment purchased	\$ 44,957
Equipment maintenance	9,539
Training expenses	2,180
Fire prevention materials	2,931
Total Fire Services	<u>\$ 59,607</u>
Administrative Services:	
Bond premiums	\$ 400
Other administrative expenses	34
Total Administrative Services	<u>\$ 434</u>
Total Expenditures	<u>\$ 75,871</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:

Vernon Central Hose Company

VERNON CENTRAL HOSE COMPANY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Inadequate Signatory Authority For The Disbursement Of Funds And
Incorrect Signature Card At Financial Institution**

Condition: During the current audit engagement, we identified 25 checks out of 68 checks drawn from the relief association's checking account that did not contain the proper signatory authority. Specifically, for the 25 checks, we found:

- Two checks contained only one relief association officer's signature. One check had the relief association's disbursing officer's signature, and the other check had the relief association's president's signature.
- Three checks contained the signatures of the relief association's disbursing officer and an individual who was not a relief association member.
- Twenty checks contained two signatures; however, the two signatures did not include the relief association disbursing officer. Each of the 20 checks were signed by a non-member and another non-member, the president, or a member (rather than an officer) of the relief association.

Also, the signature card on file at the relief association's financial institution contains five authorized signers. Only three of the authorized signers, however, are relief association officers. The other two authorized signers are not relief association members but are associated with the affiliated fire company's social club.

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:

The signature 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, redemption of any relief association investment, or on any other negotiable instrument issued by the association.

VERNON CENTRAL HOSE COMPANY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 the checks.

Cause: The relief association officials indicated that multiple factors resulted in the issuance of checks without the proper signatory authorization. They stated that there was confusion on who could sign the checks and that the social club officers got mixed up with the relief association officers. Additionally, they indicated that the social club's treasurer would receive the relief association bills and was not aware that they couldn't sign the relief association checks to pay the bills. Relief association officials did not provide any further reasons as to why other non-relief association members were permitted to sign checks.

Effect: Issuing checks with the signature of only one relief association officer, without the signature of the disbursing officer, and/or without any relief association officer's signatures negates the relief association's internal control over the disbursement process. As a result, assets were placed at greater risk as expenditures were being made without the disbursing officer and/or a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of appropriate authorized signatures ensures the propriety of the expenditure, reduces the risk of misappropriation of funds, and reduces the risk of errors occurring and going undetected. Also, having two non-members on the signature card makes the relief association susceptible to a greater risk of fraud.

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 relief association Treasurer/dispersing officer, are included on all relief association negotiable instruments as defined by the VFRA Act and the relief association's bylaws. In addition, the signature cards at the relief association's financial institution must be updated to reflect the signatures of only authorized relief association officers. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

VERNON CENTRAL HOSE COMPANY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

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

Finding No. 2 – Inadequate Minutes Of Meetings

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 relief association's minutes did not address all of the financial-related transactions that occurred during the audit period. Additionally, the minutes of meetings did not reflect the following:

- annual nomination and election of officers,
- who held the officers' positions,
- dates for when some of the meetings were held,
- the individuals in attendance to ensure that the quorum requirement was met, and
- the recording officer's signature.

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 III, 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 meetings.

In addition, the relief association's bylaws at Article III, Section 2 states:

Officers shall be elected for a one-year term by a majority vote of the membership. Nomination for all officers shall be made at the association's regular November meeting, and the election shall be held at the regular December meeting. Officers shall be installed at the regular January meeting.

VERNON CENTRAL HOSE COMPANY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

The relief association's bylaws at Article II, Section 1 states:

Regular meetings of the association shall be held on the fourth Thursday of each month immediately following the regular meeting of the Vernon Central Hose Company. Ten members shall constitute a quorum.

Cause: The relief association officials indicated that inadequate minutes of meetings were maintained due to a lack of training, multiple changes in officers, and officers being unaware that they were in violation of the association's bylaws.

Effect: Without maintaining accurate, detailed, and signed minutes of meetings, evidence that quorum requirements have been met and evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend that the relief association officials maintain detailed minutes of meetings, evidencing the discussion and approval of all relief association financial-related business conducted by the relief association and evidencing the nomination and election of the relief association officers. We also recommend that the relief association officials ensure that all meeting minutes are signed and dated by the recording officer and evidence that attendance quorum requirements have been met. 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. 3 – Failure To Maintain A Complete And Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members.

VERNON CENTRAL HOSE COMPANY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members' mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: The relief association officials indicated they maintained an annual roster of only current members and removed individuals as needed.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers or deprive eligible relief association members from receiving authorized benefit payments. In addition, the failure to maintain a complete and accurate membership roster could prevent the relief association from being able to verify that relief association officer positions are held by relief association members.

Recommendation: We recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

VERNON CENTRAL HOSE COMPANY FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Vernon Central Hose Company Firemen's Relief Association Governing Body:

Mr. Don Grinnell
President

Mr. John Fuller
Vice President

Ms. Amber Gordon
Secretary

Ms. Kimberly Conley
Treasurer

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

Ms. Roxxi Fucci
Secretary
Union Township

Ms. Amie Steadman
Secretary
Vernon 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.