

COMPLIANCE AUDIT

Bradford Township Volunteer Firemen's Relief Association

McKean County, Pennsylvania

For the Period

January 1, 2020, to December 31, 2022

April 2024



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. Shawn Galbraith, President
Bradford Township Volunteer Firemen's
Relief Association
McKean County

We have conducted a compliance audit of the Bradford Township Volunteer Firemen's Relief Association (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 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.

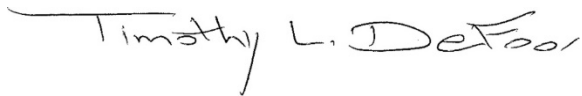
We were not able to obtain copies of canceled or imaged checks from the relief association for a relief association checking account. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by the VFRA Act.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, 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 findings listed below and discussed later in this report.

Finding No. 1 – Inadequate Relief Association Bylaws And Inadequate Signatory For The Disbursement Of Funds

Finding No. 2 – Relief Association Checking And Brokerage Accounts 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 long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
April 2, 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 municipality:

| <u>Municipality</u> | <u>County</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|---------------------|---------------|-------------|-------------|-------------|
| Bradford Township | McKean | \$20,977 | \$18,829 | \$22,924 |

Based on the relief association's records, its total cash as of December 31, 2022, was \$92,987, as illustrated below:

| | |
|------|------------------|
| Cash | <u>\$ 92,987</u> |
|------|------------------|

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$207,904, 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 | \$ 146,205 |
| Equipment maintenance | 16,890 |
| Training expenses | <u>6,961</u> |
| Total Fire Services | <u>\$ 170,056</u> |
| Administrative Services: | |
| Bond premiums | \$ 273 |
| Other administrative expenses | <u>363</u> |
| Total Administrative Services | <u>\$ 636</u> |
| Total Investments Purchased | <u>\$ 37,000</u> |
| Other Expenditures: | |
| Undocumented expenditure * | \$ 106 |
| Unauthorized expenditures ** | <u>106</u> |
| Total Other Expenditures | <u>\$ 212</u> |
| Total Expenditures | <u><u>\$ 207,904</u></u> |

* The relief association was unable to provide adequate supporting documentation evidencing the propriety of a \$106 expenditure made during calendar year 2021. We disclosed this issue to relief association officials during the conduct of our audit, but we did not include a finding in this report due to the relatively low dollar amount.

** During calendar year 2021, the relief association made disbursements in the amounts of \$68 and \$38, 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 January 30, 2024, 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:

Bradford Township Volunteer Fire Department

BRADFORD TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Inadequate Relief Association Bylaws And Inadequate Signatory Authority
For The Disbursement Of Funds**

Condition: The existing bylaws of the relief association do not clearly address all the provisions required by Section 7415(c) of the VFRA Act. Specifically, the bylaws do not address the requirement that the disbursing officer be one of the two required signers to bind the association by formal contract or to issue a negotiable instrument. In addition, the bylaws erroneously state that the fire chief is an authorized signer even though the fire chief is not an officer of the relief association.

In addition, during the current audit engagement, we identified 53 checks out of 95 checks, and 44 checks in the post audit period, drawn on the relief association's checking account that did not contain the proper signatory authority. Specifically, for the 97 checks, we found:

- One check contained the signatures of the relief association's president and the fire chief, who was not an authorized officer as stated in the relief association's bylaws; however, neither of the signatures were that of the relief association's disbursing officer.
- Two checks contained only one relief officer's signature. One check had the relief association disbursing officer's signature, and the other check had the relief association president's signature.
- Three checks contained only the signature of the fire chief.
- Ninety-one checks contained the signatures of the relief association's disbursing officer and the fire chief.

Also, in calendar year 2021, an additional ten checks were issued from a relief association checking account that was closed in May 2021 and canceled check images were not available for examination to determine if they were adequately signed by the relief association officers.

Furthermore, the signature card on file at the relief association's financial institution contains three authorized signers of which only two of the authorized signers are relief association officers. Additionally, the relief association's investment account has four authorized signers; however, only two of the authorized signers are relief association officers. The other two authorized signers are the fire chief and the fire company's treasurer.

BRADFORD TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: Section 7415(c)(3) of the VFRA 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, Article 5 states, in part:

The elected Officers of this Association shall consist of a President, Vice President, Secretary, and Treasurer.

Also, the relief association's bylaws, Article 9 states, in part:

The signature of at least two officers (Treasurer, President, Vice President, or Fire Chief) shall be required for the issuance of Relief Association checks, withdrawals from the association savings account, the redemption of any Relief Association investments or on any other negotiable instrument by the association.

In addition, 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. Furthermore, prudent business practice also dictates that the relief association should adhere to all provisions stipulated in the relief association's bylaws to ensure that the relief association conducts its affairs with proper authorization.

Cause: The relief association officials did not provide a reason why this occurred.

Effect: As a result of the relief association not following the mandatory provisions stipulated in the VFRA Act and issuing checks without the proper signatory authority, the relief association may have conducted its affairs without proper authorization and assets were placed at greater risk.

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two 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.

BRADFORD TOWNSHIP VOLUNTEER 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 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 And Brokerage Accounts Inappropriately Registered Under Affiliated Fire Service Organization's Federal Tax Identification Number

Condition: As of December 31, 2022, the relief association held checking and brokerage accounts with a total balance of \$92,987 which were inappropriately registered under the fire company's federal tax identification number rather than the relief association's identification number. These investments represent 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 did not provide a reason why this occurred.

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

Recommendation: We recommend that the relief association officials secure ownership rights to all monetary assets. This requirement can be accomplished by ensuring that all investments are registered under 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.

BRADFORD TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Bradford Township Volunteer Firemen's Relief Association Governing Body:

Mr. Shawn Galbraith
President

Mr. Jay Bradish
Vice President

Mr. Matt Mongillo
Secretary

Mr. Cyle Wolfgang
Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association:

Ms. Susan K. Gibiser
Secretary
Bradford 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.