

# COMPLIANCE AUDIT

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## Bradford Woods Volunteer Fire Company Relief Association of Bradford Woods, Allegheny County, Pennsylvania

For the Period  
January 1, 2019 to December 31, 2021

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September 2022



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. Doug Marsico, President  
Bradford Woods Volunteer Fire Company  
Relief Association of Bradford Woods,  
Allegheny County, Pennsylvania

We have conducted a compliance audit of the Bradford Woods Volunteer Fire Company Relief Association of Bradford Woods, Allegheny County, Pennsylvania (relief association) for the period January 1, 2019 to December 31, 2021. 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.

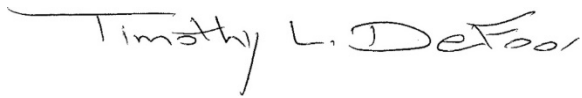
Based on our audit procedures, we conclude that, for the period January 1, 2019 to December 31, 2021, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Failure to Maintain Surety (Fidelity) Bond Coverage

Finding No. 2 – Inadequate Signatory Authority For The Disbursement of Funds

Finding No. 3 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

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, flowing style.

Timothy L. DeFoor  
Auditor General  
August 19, 2022

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## BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code<sup>1</sup>, and the Volunteer Firefighters' Relief Association Act<sup>2</sup> ("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 Law<sup>3</sup> (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.

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

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

<sup>3</sup> 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>2019</u>	<u>2020</u>	<u>2021</u>
Bradford Woods Borough	Allegheny	\$8,726	\$8,762	\$7,774

Based on the relief association's records, its total cash and investments as of December 31, 2021 were \$214,616, as illustrated below:

Cash	\$ 31,693
Fair Value of Investments	<u>182,923</u>
Total Cash and Investments	<u>\$ 214,616</u>

Based on the relief association's records, its total expenditures for the period January 1, 2019 to December 31, 2021 were \$84,973, 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.<sup>4</sup> **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>\$ 5,129</u>
Fire Services:	
Equipment purchased	\$ 25,814
Equipment maintenance	<u>3,870</u>
Total Fire Services	<u>\$ 29,684</u>
Administrative Services:	
Other administrative expenses	<u>\$ 160</u>
Total Investments Purchased	<u>\$ 50,000</u>
Total Expenditures	<u>\$ 84,973</u>

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<sup>4</sup> 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 Woods Volunteer Fire Company

BRADFORD WOODS VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF  
BRADFORD WOODS, ALLEGHENY COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Maintain Surety (Fidelity) Bond Coverage**

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by the VFRA Act. The relief association's Surety (Fidelity) bond coverage expired on September 6, 2019. As of December 31, 2021, the relief association's cash assets totaled \$31,693.

Criteria: Section 7415(c)(4) of the VFRA Act states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: Relief association officials indicated that they were unaware of the VFRA Act provision requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer.

Effect: As a result of the authorized disbursing officer of the relief association not being bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials obtain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by the VFRA Act. 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 WOODS VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF  
BRADFORD WOODS, ALLEGHENY COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Inadequate Signatory Authority For The Disbursement Of Funds**

Condition: During the current audit engagement, we identified seven checks out of 16 checks drawn on the relief association's money market account that only contained the signature of one officer (either the previous or current Relief Association Treasurer), even though two signatures are required by the VFRA Act and the relief association's bylaws. Issuing checks with the signature of only one 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.

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

The signatures of the President and the Treasurer shall be required for the issuance of Relief Association checks, withdrawal from the Association savings account, the redemption of any Relief Association investment or any other negotiable issued 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 the checks.

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

Effect: As a result of the relief association officer issuing checks with only one 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 signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

BRADFORD WOODS VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF  
BRADFORD WOODS, ALLEGHENY COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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. 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 Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle**

Condition: In 2005, the relief association expended \$35,000 towards the joint purchase of a new 2003 Pierce Lance Pumper with the affiliated fire company which had a total cost of \$333,211. The relief association entered into an agreement with the affiliated fire company dated January 25, 2005, where the relief association would receive the pro-rata share percentage of 10.5% if the vehicle was ever sold. On August 10, 2019, the jointly purchased vehicle was sold for \$86,850 (amount after 10% sales commission was deducted); however, the relief association did not receive and deposit its full proportional ownership interest of the proceeds from the sale of the jointly purchased vehicle. The relief association only received and deposited \$8,685, instead of the total proceeds due in the amount of \$9,119. The relief association is still due \$434.

Criteria: Section 7418(a) of the VFRA Act states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

BRADFORD WOODS VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF  
BRADFORD WOODS, ALLEGHENY COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold. Once the vehicle is sold, the relief association officials should closely monitor all sales to ensure proceeds are received and timely deposited into a relief association account.

Cause: The relief association official indicated that the amount paid to the relief association was an error by the fire company in calculating the percentage owed to the relief association.

Effect: The failure to receive and deposit the full proceeds due from the sale of a jointly purchased vehicle reduced the funds available for general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed the remaining \$434 for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all future proceeds resulting from the sale of a jointly purchased vehicle are timely deposited in a relief association account. 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 WOODS VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF  
BRADFORD WOODS, ALLEGHENY COUNTY, PENNSYLVANIA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Charles J. McGarvey, Sr.**  
State Fire Commissioner

Bradford Woods Volunteer Fire Company Relief Association of Bradford Woods, Allegheny  
County, Pennsylvania Governing Body:

**Mr. Doug Marsico**  
President

**Mr. Mark Edelman**  
Vice President

**Mr. Ned Jenkins**  
Secretary

**Mr. Rick Wilcox**  
Treasurer

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

**Ms. Erin Huber**  
Secretary  
Bradford Woods Borough

BRADFORD WOODS VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF  
BRADFORD WOODS, ALLEGHENY COUNTY, PENNSYLVANIA  
REPORT DISTRIBUTION LIST

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