

# COMPLIANCE AUDIT

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## Clark Volunteer Firemen's Relief Association

Mercer County, Pennsylvania

For the Period

January 1, 2021, to December 31, 2022

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May 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](http://www.PaAuditor.gov)**

**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. Donald E. Patterson, President  
Clark Volunteer Firemen's  
Relief Association  
Mercer County

We have conducted a compliance audit of the Clark Volunteer Firemen's Relief Association (relief association) for the period January 1, 2021, 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.

Based on our audit procedures, we conclude that, for the period January 1, 2021, 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 – Untimely Receipt And Deposit Of State Aid

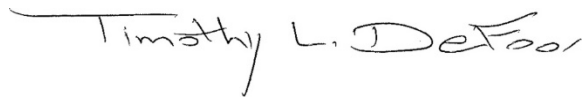
Finding No. 2 – Erroneous Deposit And Commingling Of Funds

Finding No. 3 – Inadequate Signatory Authority For The Disbursement Of Funds

Finding No. 4 – Inadequate Minutes Of Meetings And Relief Association Bylaws

We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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  
April 18, 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 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 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.

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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>2021</u>	<u>2022</u>
Clark Borough	Mercer	\$2,801*	\$3,214

\* The 2021 state aid allocation received from Clark Borough was not deposited by the relief association until February 2, 2022, as disclosed in Finding No. 1 in this report.

Based on the relief association's records, its total cash as of December 31, 2022, was \$6,362, as illustrated below:

Cash	<u>\$ 6,362</u>
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Based on the relief association's records, its total expenditures for the period January 1, 2021, to December 31, 2022, were \$11,460, 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:

#### Fire Services:

Equipment purchased	\$ 3,150
Training expenses	<u>150</u>
Total Fire Services	<u>\$ 3,300</u>

#### Other Expenditures:

Miscellaneous – See Finding No. 2	<u>\$ 8,160</u>
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Total Expenditures	<u><u>\$ 11,460</u></u>
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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:

Clark Volunteer Fire Department

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

CLARK VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Untimely Receipt And Deposit Of State Aid**

Condition: Although Clark Borough prepared and returned a Certification Form AG 385 for 2021 by the March 31 annual filing date in accordance with Act 205, the borough did not distribute the 2021 state aid in the amount of \$2,801 to the relief association in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2021, who forwarded this state aid to the relief association on February 1, 2022, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). In addition, the borough failed to complete the Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B online as required by the instructions accompanying Form 706-B and the 2021 state aid allocation received by the borough disclosing this information until February 11, 2022. The relief association had no documentation that it had attempted to obtain the funds from the borough. Upon receipt of the state aid allocation, the relief association deposited the funds into a relief association account on February 2, 2022.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that the relief association officials should be questioning the municipality about their state aid if only one relief association is in the fire service area and upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure state aid funds are obtained and deposited in a timely manner.

Cause: The relief association officials indicated that COVID-19 might have affected the state aid distribution.

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely receipt and deposit of all future income received. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

CLARK 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 – Erroneous Deposit And Commingling Of Funds**

Condition: On January 6, 2021, the relief association erroneously deposited \$8,160 of funds intended for the affiliated fire company into the relief association's account. Once the relief association found the error, the funds were returned to the affiliated fire company on January 13, 2021. Additionally, in the post audit period, although funds were transferred from the relief association's checking account to the fire company's account for an authorized purchase, the transfer was performed by an individual that was not recognized as a relief association officer.

Criteria: Relief association funds should not be commingled with any other organization's funds in order to maintain effective control of its assets. Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure that only authorized relief association officers can control the relief association's checking account.

Cause: The relief association officials stated that funds intended for the affiliated fire company were mistakenly deposited to the relief association's account and that the online expenditure transfer was initiated to avoid using a check for the purchase.

Effect: The failure to establish adequate internal controls to ensure that only funds intended for the relief association are deposited into the relief association's account and to ensure that only authorized relief association officers have access to the relief association's checking account prevented the relief association from adequately safeguarding its assets. Furthermore, the lack of effective internal controls places the relief association funds at greater risk for misappropriation.

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that all future income deposits are intended for the relief association and to ensure that only authorized relief association officers have access to the relief association's checking account. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.



CLARK VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (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. 3 – Inadequate Signatory Authority For The Disbursement Of Funds**

Condition: During the current audit engagement, we identified four checks out of four checks, and one check in the post audit period, drawn on the relief association's checking account that contained the signature of the Fire Company Treasurer, who was not an authorized officer as stated in the relief association's bylaws, in addition to the signature of the Relief Association Treasurer. Issuing checks without the signature of a second authorized 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 VII, Section 1 states:

The signatures of at least two officers, one of whom shall be the Treasurer, shall be required for the issuance of relief association checks, redemption of any relief association investment or on any other negotiable instrument 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 stated this happened due to an officer change that occurred right before the audit.

CLARK VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Effect: As a result of the relief association officer issuing checks with only one authorized 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.

**Finding No. 4 – Inadequate Minutes Of Meetings And Relief Association Bylaws**

Condition: The relief association failed to provide minutes of meetings as required by the VFRA Act and the relief association's bylaws. Even though the relief association's bylaws call for meetings to be held monthly, meetings were only held in two months during calendar year 2021 and two months during calendar year 2022. The meeting minutes also did not support that meetings were run following the order of business nor evidence of the membership's approval of relief association business. In addition, the meeting minutes were not signed and dated by the recording officer. Furthermore, the existing bylaws of the relief association contains language to conduct business pertaining to the investment of funds that is based on Act 84 of June 11, 1968. The relief association has not updated the bylaws to govern their organization to meet the requirements set forth in the VFRA Act.

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.

CLARK VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

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

Regular meetings of this association shall be held on the second Tuesday of each month immediately following the regular meeting of the Clark Volunteer Fire Department.

In addition, the relief association's bylaws at Article II, Section 3 states,

Order of business for meetings shall be:

1. Call to Order
2. Roll Call of Officers and Members
3. Reading of Minutes of Previous Meeting
4. Treasurer's Report
5. Communications
6. Committee Reports
7. Old Business
8. New Business
9. Approval of Expenditures
10. For the Good [sic] of the Association
11. Adjournment

Additionally, the relief association's bylaws at Article II, Section 3 states, in part:

Secretary: The Secretary shall keep a true record of the proceeding of every meeting in minutes. The minutes shall note authorization by the membership of all association financial transactions and all other pertinent business discussed at meetings.

Furthermore, the relief association's bylaws at Article V, Section 1 states, in part:

Funds of this association shall not be expended for any purpose other than those authorized by the provisions of Act 84 and the association bylaws.

Finally, the relief association's bylaws at Article VI, Section 1 states, in part:

Funds of this association may be invested in any security authorized by the provisions of Section 6 (c) of Act 84.

CLARK VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

Cause: The relief association officials indicated that the relief association's bylaws are due to be updated. In addition, the relief association officials did not provide a reason why all required meetings were not held, why the order of business was not documented in the minutes, why documentation of membership approval of relief association financial business was not recorded or why the Secretary of the Relief Association did not sign and date the meeting minutes.

Effect: Without holding regular meetings and maintaining detailed minutes of meetings that are signed and dated, evidence that relief association business was presented before the membership for approval does not exist. As a result of the relief association not updating the bylaws to meet the appropriate requirements, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials hold all required meetings and maintain detailed minutes of meetings as required by the VFRA Act and the relief association's bylaws, evidencing the discussion and approval of all financial-related business conducted by the relief association. We also recommend that the relief association officials ensure that all meeting minutes are signed and dated by the Secretary of the Relief Association to ensure the validity of the meeting minutes. In addition, we recommend that the relief association officials remove the language referring to Act 84 by updating the bylaws governing their organization so that the bylaws meet the requirements set forth in 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.

CLARK 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

Clark Volunteer Firemen's Relief Association Governing Body:

**Mr. Donald E. Patterson**  
President

**Mr. Taylor Johnson**  
Vice President

**Ms. Danetta Johnson**  
Secretary

**Mr. Ronald Sanford**  
Treasurer

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

**Ms. Monica M. Simko**  
Secretary  
Clark Borough

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).