

COMPLIANCE AUDIT

Fallowfield Fire & Rescue 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. David Lapadat, President
Fallowfield Fire & Rescue
Relief Association
Crawford County

We have conducted a compliance audit of the Fallowfield Fire & Rescue 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 objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding contained in our prior audit report.
2. 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 objectives 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 objectives. 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:

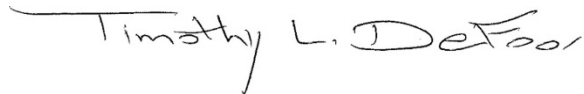
- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- The relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid 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 (Discretionary Benefits)

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

Finding No. 3 – Relief Association Checking Account 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.



Timothy L. DeFoor
Auditor General
June 30, 2023

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Finding	4
Findings and Recommendations:	
Finding No. 1 – Inadequate Relief Association Bylaws (Discretionary Benefits).....	5
Finding No. 2 – Inadequate Signatory Authority For The Disbursement Of Funds	8
Finding No. 3 – Relief Association Checking Account Inappropriately Registered Under Affiliated Fire Service Organization’s Federal Tax Identification Number	9
Report Distribution List	10

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>
East Fallowfield Township	Crawford	\$7,150	\$7,282	\$6,449	\$7,556
West Fallowfield Township	Crawford	\$2,549	\$2,597	\$2,375	\$2,823

Based on the relief association’s records, its total cash as of December 31, 2022, was \$44,125, as illustrated below:

Cash	<u><u>\$ 44,125</u></u>
------	-------------------------

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2022, were \$51,721, 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	\$ 4,220
Relief benefits	<u>500</u>
Total Benefit Services	<u>\$ 4,720</u>
Fire Services:	
Equipment purchased	\$ 18,325
Training expenses	<u>1,790</u>
Total Fire Services	<u>\$ 20,115</u>
Administrative Services:	
Bond premiums	<u>\$ 300</u>
Total Investments Purchased	<u>\$ 26,586</u>
Total Expenditures	<u><u>\$ 51,721</u></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:

Fallowfield Fire & Rescue Company

FALLOWFIELD FIRE & RESCUE RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Undocumented Expenditure

By receiving reimbursement of \$225 from the affiliated fire company for the undocumented expenditure that was made in the prior audit period.

FALLOWFIELD FIRE & RESCUE RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Relief Association Bylaws (Discretionary Benefits)

Condition: The existing bylaws of the relief association do not contain all the provisions required by Section 7415(c) of the VFRA Act. Specifically, the bylaws do not address the following:

- The quorum requirement for meetings and special meetings.
- The requirement for the signatures of at least two (2) officers, one of whom shall be the disbursing officer, in order to bind the association or to issue any negotiable instruments.
- The requirement for the disbursing officer to be bonded by corporate surety for the faithful performance of their duties.
- The procedures to be followed in nominating and electing officers, trustees, directors, and members of the executive committee.
- The procedures for the approval and payment of expenditures and for the investment of funds, and the sale of investments.

In addition, the relief association did not formally define discretionary benefits that were being offered to its members. During the current audit period, the relief association paid a \$500 hardship relief benefit to a member of the relief association. Although this expenditure was authorized by the VFRA Act, the types, amounts, and criteria to be met before receiving the benefits was not described in a formal policy approved by the association membership.

FALLOWFIELD FIRE & RESCUE RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: Section 7415(c) of the VFRA Act states that the relief association’s bylaws should include the following provisions:

- (2) State the notice requirements and procedure to be followed in calling meetings, as well as quorum requirements for regular and special meetings of the membership and for regular and special meetings of the body which governs the operations of the association between membership meetings, and shall designate that body, whether it be a board of directors, trustees or any similar body such as an executive committee. Unless otherwise provided for in the bylaws, powers and duties of officers, directors and trustees shall be those which normally pertain to such positions in nonprofit corporations.
- (3) 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.
- (4) Require 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 funds of the association.
- (5) State the procedure to be followed in nominating and in electing officers, trustees, directors, and members of the executive committee, according to the provisions which have been made for establishment of those positions.
- (6) Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.
- (10) Contain such other provisions as may, to the membership, seem appropriate or necessary to the orderly conduct of affairs of the association.

In addition, Section 7413 of the VFRA Act states that funds shall be available:

- (3) For payment, either by insurance or by operation of a beneficial fund, of a sum certain to designated beneficiaries of a participating member following the death of a member for any cause and to establish criteria which members must meet in order to qualify as participants in a death benefit fund. (Emphasis added.)

FALLOWFIELD FIRE & RESCUE RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, or any other type of discretionary benefit provided by the VFRA Act, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well.

Cause: Relief association officials indicated that this deficiency occurred due to a lack of knowledge of the VFRA Act and the bylaw requirements.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization. In addition, the relief association's failure to formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the association.

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act and properly authorize the operating procedures of the relief association. 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.

FALLOWFIELD FIRE & RESCUE RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: During the current audit engagement, we identified five checks out of the 25 checks from the period under audit plus three checks in the post audit period, drawn on the relief association's checking account that contained the signatures of either the Fire Chief or a fire company trustee, who were not authorized officers as stated in the relief association's bylaws, in addition to the signature of the Relief Association Treasurer. Further, the financial institution's signature card for the relief association's checking account inappropriately lists the Fire Chief and the fire company trustee, who are not officers of the relief association, as authorized signers. 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 should address the signatory requirement for the disbursement of funds.

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 that due to family relations among three of the four relief association officers and to avoid any conflict of interest, the Fire Chief and fire company trustee, who were not relief association officers, were given authorization to sign relief association checks.

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

FALLOWFIELD FIRE & RESCUE RELIEF ASSOCIATION
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 properly 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. Further, the signature card at the relief association’s financial institution needs to be updated to include only relief association officers as authorized signers. 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 – Relief Association Checking Account Inappropriately Registered Under Affiliated Fire Service Organization’s Federal Tax Identification Number

Condition: As of December 31, 2022, the relief association held a Checking account, with a total cost value of \$44,125 which was inappropriately registered under the fire company’s federal tax identification number rather than the relief association’s identification number. This cash account represents 100 percent of the relief association’s cash assets.

Criteria: Prudent business practice dictates that the relief association maintain ownership of all cash 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 cash account 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 cash accounts 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.

FALLOWFIELD FIRE & RESCUE RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Fallowfield Fire & Rescue Relief Association Governing Body:

Mr. David Lapadat
President

Mr. Jesse Walker
Vice President

Ms. Cynthia Saulsbery
Secretary

Ms. Gabrielle Saulsbery
Treasurer

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

Ms. Donna Kean
Secretary
East Fallowfield Township

Ms. Danita Riggle
Secretary
West Fallowfield 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.