

COMPLIANCE AUDIT

Lilly Community Fire Company No. 1, Relief Association of Lilly, PA

Cambria County, Pennsylvania

For the Period

January 1, 2019, to December 31, 2021

December 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. David Fulton, President
Lilly Community Fire Company No. 1,
Relief Association of Lilly, PA
Cambria County

We have conducted a compliance audit of the Lilly Community Fire Company No. 1, Relief Association of Lilly, PA (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.

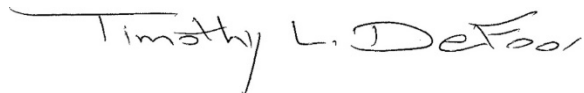
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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 Adhere To Relief Association Bylaws

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

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
December 8, 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 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>
Lilly Borough	Cambria	\$3,744	\$3,813	\$3,407
Washington Township	Cambria	\$4,038	\$4,112	\$3,806

During the conduct of our audit of the relief association, relief association officials indicated that Lilly Fire Company of Lilly, PA is merging with Cresson Volunteer Fire Company of Cresson, PA as a result of financial and manpower constraints. Lilly Fire Company of Lilly, PA and Cresson Volunteer Fire Company of Cresson, PA are in the final stages of merging to become Keystone Regional Fire Rescue Department. After the fire companies are officially merged, Lilly Community Fire Company No. 1, Relief Association of Lilly, PA and Cresson Volunteer Firemen’s Relief Association will proceed with merging their relief associations. Prudent business practice dictates that relief associations contemplating merging should consider retaining legal counsel to provide assurance that the merger complies with applicable laws and regulations governing non-profit charitable organizations and that all benefits owed to active and former association members are maintained and protected. In addition, if this is the case, the relief association members should conduct a meeting to approve the merger of the association and the disposition of its assets. In most circumstances, all relief association-owned equipment and monetary assets of the merging relief association are to be transferred to the new relief association affiliated with the volunteer fire company that is reestablished as a result of the merger. In addition, relief association officials should contact this department in preparation of a final audit of the relief association and perform the following:

- The relief association should provide full documentation of the monetary assets and equipment being transferred. A complete inventory of all equipment should be performed, and a listing of the equipment transferred should be completed.
- Upon transfer of the equipment, a signed receipt from the relief association receiving the equipment should be obtained to verify items of equipment transferred. Those items of equipment then become assets to the recipient relief association and should be added to that relief association’s equipment roster.

The department will verify the receipt of the equipment and monetary assets transferred through an audit of the recipient association. However, as of the date of this report, the official documentation of the merging departments was not yet available. Relief association officials indicated the documentation will be forthcoming after the Cambria County Orphans Court judge schedules a hearing and renders his decision, and that the documentation will be the final item needed to complete the merger of the fire companies.

BACKGROUND – (Continued)

Based on the relief association’s records, its total cash as of December 31, 2021, was \$9,484, as illustrated below:

Cash	<u>\$ 9,484</u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2021, were \$22,589, 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>\$ 18,014</u>
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Fire Services:

Equipment purchased	\$ 2,762
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Training expenses	<u>1,313</u>
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Total Fire Services	<u>\$ 4,075</u>
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Administrative Services:

Bond premiums	<u>\$ 500</u>
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Total Expenditures	<u>\$ 22,589</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:

Community Volunteer Fire Department of Lilly

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

LILLY COMMUNITY FIRE COMPANY NO. 1, RELIEF ASSOCIATION OF LILLY, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Adhere To Relief Association Bylaws

Condition: The relief association did not adhere to the provisions in the association’s bylaws. Specifically, the relief association chose to follow the bylaws that were written to incorporate a merger of the Lilly and Cresson Volunteer Fire Departments, even though the merger was not yet complete.

Criteria: Prudent business practice 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: Relief association officials indicated that they consulted an attorney and the Office of the Pennsylvania State Fire Commissioner before changing the bylaws and thought they did the amendment correctly.

Effect: As a result of the relief association not following the official bylaws of the relief association currently in existence, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials review the bylaws governing their organization and establish guidelines and procedures to meet the provisions contained in the bylaws in order to assure that the association conducts its affairs with proper authorization. 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 after the fire company merger is completed.

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

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

Condition: During the current audit engagement, the relief association drew 18 checks on the relief checking account for expenditures. In 2019, 5 checks drawn on the relief association checking account contained the proper signatory authority, and 3 checks cleared the bank electronically and were not able to be viewed. The remaining 10 checks in 2020 and 2021 drawn on the relief association checking account did not contain the proper signatory authority. All of the 2020 and 2021 checks were signed by the officers of the Keystone Regional Fire Rescue Department, who were not authorized signers per the Lilly Community Fire Company No. 1 Relief Association of Lilly, PA by-laws.

LILLY COMMUNITY FIRE COMPANY NO. 1, RELIEF ASSOCIATION OF LILLY, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 VI, Section 5 and Amendment 1 states, in part:

The Treasurer shall only pay out such money's upon warrants signed by the President and Secretary of the Association. Amendment No. 1 states: All checks are to be signed by the Treasurer and the Financial Secretary of the Lilly Fire Company, and both officers are to be bonded.

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: Relief association officials indicated that they consulted an attorney and the Office of the Pennsylvania State Fire Commissioner before changing the bylaws and thought the amendment to the bylaws would have incorporated the new officers to sign checks.

Effect: As a result of the relief association issuing checks without the proper authorized signatures, assets were placed at greater risk as expenditures were being made without proper signatory authority.

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. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

LILLY COMMUNITY FIRE COMPANY NO. 1, RELIEF ASSOCIATION OF LILLY, PA
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 after the fire company merger is completed.

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

LILLY COMMUNITY FIRE COMPANY NO. 1, RELIEF ASSOCIATION OF LILLY, PA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Lilly Community Fire Company No. 1, Relief Association of Lilly, PA Governing Body:

Mr. David Fulton
President

Mr. Paul Sklodowski
Vice President

Mr. Neal Hammond
Secretary

Mr. Theodore Westin, Jr.
Treasurer

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

Ms. Claudine M. Falger
Secretary
Lilly Borough

Ms. Pamela Flis
Secretary
Washington 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.