

COMPLIANCE AUDIT

Nelson Volunteer Firemen's Relief Association

Tioga County, Pennsylvania

For the Period

January 1, 2019 to December 31, 2021

June 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Edward Brimmer, President
Nelson Volunteer Firemen's Relief Association
Tioga County

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

We were not able to obtain an independent confirmation of the cash balance directly from the financial institution. Therefore, while the relief association provided copies of bank statements that indicated that, as of December 31, 2021, the relief association had a cash balance of \$2,266, we were not able to verify this cash balance.

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, 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 – Untimely Deposit Of State Aid

Finding No. 2 – Erroneous Transfer Of Funds

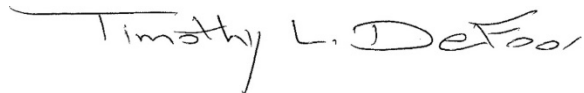
Finding No. 3 – Inadequate Signatory Authority For The Disbursement Of Funds

Finding No. 4 – Inadequate Relief Association Bylaws

Finding No. 5 – Failure To Adhere To 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
June 10, 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>
Farmington Township	Tioga	\$1,821	\$1,831	\$1,723
Lawrence Township	Tioga	\$ 991	\$ 997	\$ 883
Nelson Township	Tioga	\$2,665	\$2,699	\$2,421*

* The 2021 state aid allocation received from Nelson Township 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, 2021 was \$2,266, as illustrated below:

Cash	<u>\$ 2,266</u>
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BACKGROUND – (Continued)

Based on the relief association's records, its total expenditures for the period January 1, 2019 to December 31, 2021 were \$21,618, 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	\$ 3,025
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Fire Services:

Equipment purchased	\$ 12,723
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Equipment maintenance	917
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Training expenses	200
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Total Fire Services	\$ 13,840
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Administrative Services:

Other administrative expenses	\$ 20
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Bond premiums	344
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Total Administrative Services	\$ 364
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Other Expenditures:

Erroneous transfer of funds	\$ 4,389
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Total Expenditures	\$ 21,618
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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:

Nelson Volunteer Fire Department

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

NELSON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Deposit Of State Aid

Condition: The relief association did not deposit the 2021 state aid allocation it received from Nelson Township, in the amount of \$2,421, until February 2, 2022. 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 October 24, 2021, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

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 upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: The relief association officials stated a lack of oversight as the reason for the untimely deposit of the state aid funds.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts 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 deposit of all future income received. 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.

NELSON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Erroneous Transfer Of Funds

Condition: The relief association erroneously transferred \$2,500 and \$1,889 from its savings account to the fire company's checking account on April 22, 2021 and October 25, 2021, respectively. A review of the relief association's 2022 financial information revealed an additional erroneous transfer of \$2,961 to the fire company on February 18, 2022. The three erroneous transfer of funds totaled \$7,350.

Criteria: Relief association funds should not be commingled with any other organization's funds in order to maintain effective control of its assets. In addition, adequate accounting and internal controls should include procedures to prevent erroneous transfers.

Cause: The relief association officials stated a lack of oversight as to the reason for the erroneous transfer of relief association funds to the fire company.

Effect: As a result of the erroneous transfer of funds, the relief association was unable to use the funds for other general operating expenses or for investment purposes. In addition, the transfer to the fire company's account reduces the relief association's control over cash disbursements.

Recommendation: We recommend that the relief association be reimbursed \$7,350 for the erroneous transfer of funds. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association expenditures. 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$7,350 for the erroneous transfers on March 17, 2022.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$7,350 was received. Compliance for preventing erroneous transfer of funds 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 seven checks out of 25 checks drawn on the relief association's checking account that only contained the signature of one officer (the Relief Association Treasurer), even though two signatures are required by the VFRA Act and the relief association bylaws. Issuing checks with the signature of only one relief association officer negates the relief association's internal control over the disbursement process.

NELSON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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 VII, Section 1 states:

The signatures of at least two (2) Officers, one whom shall be the Secretary/Treasurer, shall be required for the issuance of Relief Association checks, the redemption of any relief Association investment or on any 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 a lack of oversight as the reason for the issuance of relief association checks containing the signature of only one officer.

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.

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.

NELSON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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. 4 – Inadequate Relief Association Bylaws

Condition: The most recent edition of the relief association's bylaws, dated February 16, 2004, authorize the combination of the position/office of Secretary and Treasurer; however, during the prior and current audits, the relief association had two separate individuals holding these positions, but never updated their bylaws to reflect this segregation of duties.

Criteria: Prudent business practice dictates that the duties of the Secretary and Treasurer be sufficiently segregated. An adequate segregation of duties is the primary internal control intended to prevent or decrease the risk of errors or irregularities.

The minimum requirements of the Secretary's position, pertaining to a relief association, are to maintain detailed minutes of meetings authorizing the relief association's financial operations. The Secretary should review and coordinate the amending of the bylaws governing the relief association so that the bylaws meet the minimum requirements of the VFRA Act.

The minimum requirements of the Treasurer's position, pertaining to a relief association, are to maintain an account of all funds belonging to the relief association. The treasurer shall maintain a journal and ledger detailing all financial transactions of the relief association along with documentation supporting the receipts and disbursements. The Treasurer should co-sign all negotiable instruments along with another relief association officer. Also, financial statements should be prepared at least on an annual basis by the treasurer.

Section 7415(c) of the VFRA Act states that the relief association's bylaws shall:

- (10) Contain such other provisions as may, to the membership, seem appropriate or necessary to the orderly conduct of affairs of the association.

NELSON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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

The Association shall consist of a President, Vice President and a Secretary/Treasurer. The officers shall be responsible for the management of the Association business upon direction received by the membership at Association meetings.

In addition, the relief association's bylaws at Article III, Section 4 states, in part:

Secretary/Treasurers: The Secretary/Treasurer shall keep a true record or the proceeding of every meeting in the minutes. The minutes shall note authorization by member by the membership of all Association financial transactions and all other pertinent business discussed at meetings (*Sic*)

The Secretary/Treasure shall keep account of all money belonging to the Association and shall not expend monies or enter into investment transactions without authorization of the membership. The Treasure shall keep a journal and ledger which details all financial transactions of the Association and shall maintain all documentation supporting the receipts and disbursements made by the Association. (*Sic*)

Cause: Relief association officials indicated that there was a lack of oversight for not correcting their bylaws.

Effect: The bylaws authorization of the combined offices may result in the relief association conducting its affairs without proper authorization. The bylaws, therefore, are inconsistent with best business practices and the VFRA Act.

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.

NELSON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure To Adhere To Relief Association Bylaws

Condition: The relief association did not adhere to a provision in the relief association's bylaws. Specifically, the relief association did not abide by the bylaw stipulation that relief association officers shall not coincide with officers of the affiliated fire department at the same time. During the current audit engagement, we detected that the relief association officers were the same individuals holding the offices in the affiliated fire department.

Criteria: The relief association's bylaws at Article III, Section 3 states:

Officers of this Association shall not coincide with officers of the Nelson Volunteer Fire Department.

Furthermore, 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 officers stated that there is a limited number of volunteers and of those members, they do not wish to have the responsibility of an officer of the organization.

Effect: As a result of the relief association not following the mandatory provisions stipulated in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials review and amend the bylaws governing their organization and establish guidelines and procedures to meet the provisions contained in the bylaws to ensure that the association conducts its affairs with proper authorization according to 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.

NELSON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
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

Nelson Volunteer Firemen's Relief Association Governing Body:

Mr. Edward Brimmer
President

Ms. Lisa McLean
Secretary

Mr. Keith McLean
Treasurer

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

Ms. Penny Jeffers
Secretary
Farmington Township

Ms. Susan G. Williams
Secretary
Lawrence Township

Ms. Penny Jeffers
Secretary
Nelson Township

NELSON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
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