

COMPLIANCE AUDIT

New Franklin Firemen's Relief Association of the State of Pennsylvania Franklin County For the Period January 1, 2019, to December 31, 2022

November 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Dennis Faust, President
New Franklin Firemen's Relief Association
of the State of Pennsylvania
Franklin County

We have conducted a compliance audit of the New Franklin Firemen's Relief Association of the State of Pennsylvania (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 findings contained in the 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.

The 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 association funds complies with applicable state laws, contracts, bylaws, and administrative procedures, including the safeguarding of assets. It is the Department's responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objectives. It is believed that the audit provides a reasonable basis for the conclusions.

Based on the audit procedures, it is concluded that, for the period January 1, 2019, to December 31, 2022:

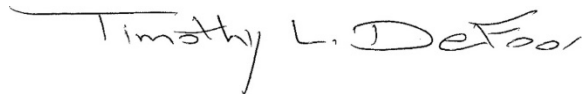
- The relief association took appropriate corrective action to address one of the two findings contained in the prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in the prior audit report, as listed below, and discussed in the Status of Prior Findings section of this 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 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Finding No. 2 – Inappropriate Pre-signing Of Blank Checks

Finding No. 3 – Inadequate Minutes Of Meetings And Relief Association
Bylaws

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
October 4, 2023

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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 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.

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>
Guilford Township	Franklin	\$20,160	\$20,333	\$17,892	\$22,056
Quincy Township	Franklin	\$ 1,445	\$ 1,459	\$ 1,293	\$ 1,551

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)

Based on the relief association’s records, its total cash as of December 31, 2022, was \$159,661, as illustrated below:

Cash	<u>\$ 159,661</u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2022, were \$240,549, 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	\$ 39,020
Death benefits	4,000
Total Benefit Services	<u>\$ 43,020</u>
Fire Services:	
Equipment purchased	\$ 60,753
Equipment maintenance	26,049
Training expenses	9,344
Fire prevention materials	1,600
Total Fire Services	<u>\$ 97,746</u>
Administrative Services:	
Bond premiums	\$ 1,472
Officer compensation	10
Other administrative expenses *	9,796
Total Administrative Services	<u>\$ 11,278</u>
Other Expenditures:	
Unauthorized expenditures	<u>\$ 88,505</u>
Total Expenditures	<u><u>\$ 240,549</u></u>

* A majority of the other administrative expenses represent \$7,026 expended in calendar years 2019 through 2021 for emergency reporting services.

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:

New Franklin Fire Department

NEW FRANKLIN FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with one of the two prior audit findings and recommendations, as follows:

- Failure To Maintain A Complete And Accurate Equipment Roster

The relief association maintained a complete and accurate equipment roster through the audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Unauthorized Expenditures

Although the relief association received reimbursement of \$1,500 from the affiliated fire company for the unauthorized expenditures that were made in the prior audit period, the relief association expended funds in the current audit period that the Office of the State Fire Commissioner determined were not authorized by the VFRA Act as further disclosed in Finding No. 1 of this report.

NEW FRANKLIN FIREMEN’S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures

Condition: Although the relief association received reimbursement from the affiliated fire company for the unauthorized expenditures that were made in the prior audit period, the relief association expended funds for the following items related to fundraising during the current audit period for which the Office of the State Fire Commissioner determined that the expenditures were not authorized by the VFRA Act.

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
01/15/2019	1897	Small Games of Chance (SGOC) supplies	\$ 792
02/11/2019	1900	SGOC supplies	1,045
03/11/2019	1902	SGOC supplies	2,181
03/17/2019	1904	Bingo prizes	12,600
04/08/2019	1907	Bingo supplies	649
04/24/2019	1910	Affiliated fire company – Bingo rental fee	988
05/05/2019	1915	Bingo prizes	12,280
05/06/2019	1909	Bingo and SGOC license fees	235
05/08/2019	1917	Bingo prizes	400
06/05/2019	1920	SGOC supplies	2,644
06/26/2019	1921	Affiliated fire company – Bingo rental fee	986
08/05/2019	1923	SGOC supplies	1,119
08/06/2019	1926	Affiliated fire company – Bingo rental fee	1,253
09/09/2019	1929	SGOC supplies	1,508
09/15/2019	1931	Bingo prizes	6,275
09/30/2019	1934	Affiliated fire company – Bingo rental fee	426
10/11/2019	1935	SGOC supplies	2,010
10/30/2019	1936	Affiliated fire company – Bingo rental fee	968
11/04/2019	1940	SGOC supplies	1,295
12/09/2019	1944	SGOC supplies	112
02/07/2020	1950	SGOC supplies	1,931
03/06/2020	Debit	Bingo prizes	1,100
03/09/2020	Debit	Bingo prizes	900
03/09/2020	1956	Bingo prizes	375
03/12/2020	Debit	Bingo prizes	750
03/12/2020	Debit	Bingo prizes	500
05/04/2020	1960	Bingo and SGOC license fees	225

NEW FRANKLIN FIREMEN’S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
10/18/2020	1970	Bingo prizes	\$ 2,500
10/20/2020	1971	Individual – Bingo cash prize	30
10/20/2020	1972	Individual – Bingo cash prize	30
11/23/2020	1974	Affiliated fire company – Bingo rental fee	5,280
03/28/2021	1980	Individual – Reimbursement for bingo ticket	30
05/05/2021	1985	Bingo and SGOC license fees	235
01/31/2022	2008	Affiliated fire company – Bingo prizes	625
04/24/2022	2025	Bingo prizes	4,935
05/05/2022	2026	Bingo and SGOC license fees	225
05/31/2022	2027	Affiliated fire company – Bingo rental fee and prizes	8,061
06/10/2022	2032	SGOC supplies	1,205
09/25/2022	2040	Bingo prizes	1,500
10/05/2022	2041	SGOC supplies	1,195
10/31/2022	2043	Affiliated fire company – Bingo prizes	<u>7,107</u>
Total			<u>\$ 88,505</u>

Criteria: Section 7416(f) of the VFRA Act states:

The funds of any volunteer firefighters’ relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

In addition, Section 7418(b) of the VFRA Act states:

- (b) Findings -- If the Auditor General finds that money received by a volunteer firefighters’ relief association has been expended for a purpose other than one authorized by this subchapter, the commissioner, upon receiving notice of the finding from the auditor general, shall decline to approve payment to the volunteer firefighters’ relief association until the improperly expended amount has been reimbursed to the relief association fund.

NEW FRANKLIN FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Section 7418(a)(4) of the VFRA Act was amended by Act 91 of 2020 granting the Office of the State Fire Commissioner (OSFC) the authority to make a determination of whether an expenditure of state aid is appropriate under the VFRA Act. In a June 9, 2023, correspondence, the OSFC provided the following determination, which stated, in part:

Fundraising expenses are not authorized expenditures pursuant to 35 Pa.C.S. § 7416 (sic). OSFC will update the VFRA database, available at <https://osfc.sfa.pa.gov/fra/>, to include the following entry:

Fundraising Expenses: Fundraising expenses, including purchasing prizes, are not authorized expenditures.

Cause: The relief association officials attributed the deficiency to a budget misalignment between the fire company and relief association.

Effect: Although the relief association may benefit financially from fundraising activities, purchasing gambling supplies and prizes are not authorized expenditures by the VFRA Act. As a result of the unauthorized use of funds, the money was not available for investment purposes or to pay for expenditures authorized by the VFRA Act.

Recommendation: The Department recommends that the relief association be reimbursed \$88,505 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of the VFRA Act to aid them in determining the propriety of future 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 \$88,505 for the unauthorized expenditures on September 7, 2023.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$88,505 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Inappropriate Pre-signing Of Blank Checks

Condition: A review of the relief association's checkbook, at the time of the audit engagement, revealed that three blank checks were pre-signed by two relief association officers who are authorized to sign checks. The pre-signing of blank checks negates the relief association's internal control over the disbursement process.

NEW FRANKLIN FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Prudent business practice dictates that the relief association has sufficient internal control procedures in place to prohibit the pre-signing of blank checks. 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 signing the checks.

Cause: The relief association officials contributed the deficiency to the deterioration of good business practices.

Effect: As a result of the two authorized relief association officers pre-signing the blank checks, assets were placed at greater risk of misappropriation since the officers did not have the opportunity to verify the propriety of the expenditures.

Recommendation: The Department recommends that the practice of pre-signing blank checks be immediately discontinued. The Department also recommends that all of the relief association officers ensure that checks are signed and co-signed only after the propriety of the expenditures have been determined and the payees, dates, and amounts to be paid have been confirmed. 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 the next audit.

Finding No. 3 – Inadequate Minutes Of Meetings And Relief Association Bylaws

Condition: The relief association failed to maintain detailed minutes of meetings as required by the VFRA Act and the relief association's bylaws. Specifically, the relief association's minutes did not address all financial-related transactions that occurred during the audit period. 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 disbursement, investment, and purchase 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 (Act 118 of 2010 and Act 91 of 2020).

NEW FRANKLIN FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: 35 Pa.C.S. § 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.

The relief association's bylaws at Article 3, Section 3 states, in part:

The secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note authorization by the trustees of all association financial transactions and all other pertinent business discussed at meetings.

Cause: The relief association officials attributed the deficiencies to the deterioration of good business practices by the relief association for this operational area.

Effect: Without 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: It is recommended that the relief association officials 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. The minutes should include an adequate record of all financial-related business conducted by the relief association. It is further recommended 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, it is recommended 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 (Act 118 of 2010 and Act 91 of 2020). 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 the next audit.

NEW FRANKLIN FIREMEN’S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

New Franklin Firemen’s Relief Association of the State of Pennsylvania Governing Body:

Mr. Dennis Faust
President

Ms. Brianna Stambaugh
Vice President

Ms. Sarah Erler
Secretary

Mr. Larry Tarman
Interim Treasurer

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

Ms. Shannon Malott
Secretary
Guilford Township

Ms. Laura Justus
Secretary
Quincy Township

NEW FRANKLIN FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
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