

COMPLIANCE AUDIT

Northmoreland Township Volunteer Fire Company Relief Association, Inc. Wyoming County, Pennsylvania For the Period January 1, 2020, to December 31, 2022

June 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**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Ms. Victoria Martin, President
Northmoreland Township Volunteer
Fire Company Relief Association, Inc.
Wyoming County

We have conducted a compliance audit of the Northmoreland Township Volunteer Fire Company Relief Association, Inc. (relief association) for the period January 1, 2020, 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.

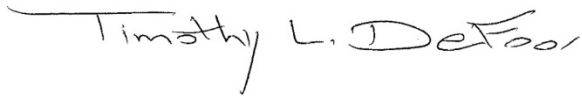
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief association funds complies with applicable state laws, contracts, bylaws, and administrative 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, 2020, 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 – Inadequate Signatory Authority For The Disbursement Of Funds

Finding No. 2 – Inadequate 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.

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
May 22, 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 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>2020</u>	<u>2021</u>	<u>2022</u>
Franklin Township	Luzerne	\$10,551	\$9,272	\$11,214
Northmoreland Township	Wyoming	\$ 9,239	\$8,198	\$ 9,562

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 \$51,784, as illustrated below:

Cash	<u>\$ 51,784</u>
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Based on the relief association's records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$117,260, 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:

Fire Services:

Equipment purchased	\$ 71,837
Training expenses	<u>3,000</u>
Total Fire Services	<u>\$ 74,837</u>

Administrative Services:

Bond premiums	<u>\$ 1,133</u>
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Other expenditures:

Miscellaneous *	<u>\$ 41,290</u>
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Total Expenditures	<u>\$ 117,260</u>
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* The miscellaneous expenditure was repayment of an erroneous deposit from the affiliated fire company to the relief association account on July 19, 2022. Once the relief association found the error, the affiliated fire company was immediately reimbursed \$41,290 on July 19, 2022.

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:

Northmoreland Volunteer Fire Company

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

NORTHMORELAND TOWNSHIP VOLUNTEER FIRE COMPANY
RELIEF ASSOCIATION, INC.
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified five checks out of 20 checks drawn from the relief association's checking account that did not contain the proper signatory authority. Specifically, for the five checks, we found:

- Four checks contained two signatures, the Secretary and one of two former Vice Presidents; however, the two signatures did not include the relief association disbursing officer.
- One check contained only one relief association officer's signature (Secretary) but did not contain the signature of the disbursing officer.

In addition, subsequent to the period under review, we identified 16 out of 21 checks drawn from the relief association's checking account that also did not contain the proper signatory authority. Specifically, for the 16 checks, we found:

- Fifteen checks contained two signatures, nine of which were signed by the Secretary and the Vice President, six which were signed by the Secretary and the President; however, the two signatures did not include the relief association disbursing officer.
- One check contained two signatures, those of the President and Vice President but not that of the disbursing officer.

Furthermore, issuing checks without the signature of the disbursing officer or without 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 former bylaws (bylaws in effect until November 13, 2020) at Article VII, Section 1 stated:

The signatures of at least two officers, one of whom shall be the treasurer, shall be required for the issuance of relief association checks, withdrawal from the association savings account, redemption of any relief association investment, or any other negotiable instrument issued the association.

NORTHMORELAND TOWNSHIP VOLUNTEER FIRE COMPANY
RELIEF ASSOCIATION, INC.
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

However, the relief association's new bylaws that went into effect on November 13, 2020, omitted this article completely. (See Finding No. 2 below)

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 official indicated that the bylaws were recently updated with the removal of the provision of having the authorized disbursing officer, specifically the treasurer, being one of the signers of all negotiable instruments.

Effect: As a result of the relief association officers issuing checks without the signature of the disbursing officer and with only one authorized signature, assets were placed at greater risk without the disbursing officer having the opportunity to verify the propriety of the expenditures.

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 former 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.

NORTHMORELAND TOWNSHIP VOLUNTEER FIRE COMPANY
RELIEF ASSOCIATION, INC.
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Relief Association Bylaws

Condition: The new bylaws of the relief association do not contain all the provisions required by Section 7415(c) of the VFRA Act and/or considered to be beneficial to the operation of relief associations. Specifically, the bylaws do not address the following provisions:

- The signature of at least two officers, one of whom is the disbursing officer (Treasurer) on any formal contract or to issue any negotiable instrument.
- The requirement of the disbursing officer to be bonded by corporate surety in the amount greater than the relief association's cash assets.
- Procedures to be followed when amending the relief association bylaws.

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

- (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.
- (7) Set out the procedure to be followed in amending bylaws.

Furthermore, the relief association bylaws should authorize and clearly specify the criteria to be met before receiving death or relief benefits and the amount of any benefit payments. In addition, the bylaws should address the authorization of compensation to relief association officers.

Cause: Relief association officials indicated that they were unaware of the mandatory bylaw provisions established by the VFRA Act.

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.

NORTHMORELAND TOWNSHIP VOLUNTEER FIRE COMPANY
RELIEF ASSOCIATION, INC.
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

NORTHMORELAND TOWNSHIP VOLUNTEER FIRE COMPANY
RELIEF ASSOCIATION, INC.
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Northmoreland Township Volunteer Fire Company Relief Association, Inc. Governing Body:

Ms. Victoria Martin
President

Mr. Michael Carey
Vice President

Ms. Melinda Smith
Secretary

Ms. Katelyn DeRoberto
Treasurer

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

Mr. Richard A. Melvin
Secretary
Franklin Township

Ms. Judy Rusinko
Secretary
Northmoreland 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.