

COMPLIANCE AUDIT

Pringle Volunteer Firemen's Relief Association

Luzerne County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2020

January 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Harold Marcy, President
Pringle Volunteer Firemen's
Relief Association
Luzerne County

We have conducted a compliance audit of the Pringle Volunteer Firemen's Relief Association (relief association) for the period January 1, 2015 to December 31, 2020. 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, 35 Pa.C.S. § 7411 *et seq.* ("VFRA Act"), as most recently amended by Act 91 of 2020.

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.

During the course of this audit, the Department of the Auditor General learned of alleged administrative improprieties within the relief association. These activities called into question the reliability of the evidence that we used to determine the relief association's compliance with applicable requirements as reported in the previously issued audit report for the period January 1, 2015 to December 31, 2017. As a result, the relief association's audit report issued in 2018 was formally withdrawn. Because of the withdrawal of the previously issued report, the audit period for this engagement is January 1, 2015 to December 31, 2020, and the reissuance of the aforementioned report is satisfied by the issuance of this audit report which includes the prior audit review period in addition to the January 1, 2018 to December 31, 2020 period.

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, 2015 to December 31, 2020:

- The relief association did not take appropriate corrective action to address the finding contained in the audit report for the period of January 1, 2011 to December 31, 2014, as detailed below and discussed in the Status of Prior Finding 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 – Failure To Maintain Adequate Minutes Of Meetings
(Noncompliance With Prior Audit Recommendation) And
Failure To Adhere To Relief Association Bylaws

Finding No. 2 – Failure To Define Discretionary Benefits And Presentation Of
Fabricated Minutes

Finding No. 3 – Unauthorized Expenditure

Finding No. 4 – Inadequate Signatory Authority For The Disbursement Of Funds

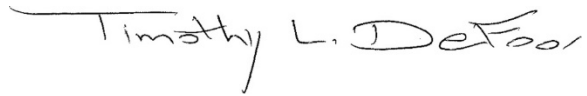
Finding No. 5 – Failure To Comply With Terms Of Loan Agreement

Finding No. 6 – Failure To Maintain A Complete And Accurate Equipment
Roster

We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

We recommend the results of this audit be used by the Luzerne County, Pennsylvania District Attorney's Office to determine whether any criminal laws of this Commonwealth have been violated and/or for whatever action it may deem appropriate and necessary.

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 horizontal line above the first few letters.

Timothy L. DeFoor
Auditor General
November 23, 2021

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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.

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Pringle Borough	Luzerne	\$4,982	\$4,962	\$4,572	\$4,144	\$4,516	\$4,560

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 and investments as of December 31, 2020 were \$90,568, as illustrated below:

Cash	\$ 33,957
Fair Value of Investments	<u>56,611</u>
Total Cash and Investments	<u>\$ 90,568</u>

Based on the relief association's records, its total expenditures for the period January 1, 2015 to December 31, 2020 were \$13,609, 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	\$ 3,432
Tokens of sympathy and goodwill	45
Total Benefit Services	<u>\$ 3,477</u>
Fire Services:	
Equipment purchased	\$ 482
Equipment maintenance	719
Training expenses	120
Total Fire Services	<u>\$ 1,321</u>
Administrative Services:	
Officer compensation	\$ 5,730
Other administrative expenses	25
Bond premiums	2,400
Total Administrative Services	<u>\$ 8,155</u>
Other Expenditures:	
Unauthorized expenditure	<u>\$ 656</u>
Total Expenditures	<u>\$ 13,609</u>

⁴ Accuracy was evaluated for all transactions for which documentation was available.

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:

Pioneer Volunteer Fire Department

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain Minutes Of Meetings

We are concerned by the relief association's failure to correct this previously reported audit finding. The relief association management should strive to implement the recommendation and corrective action noted in this audit report.

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Maintain Adequate Minutes Of Meetings (Noncompliance With Prior Audit Recommendation) And Failure To Adhere To Relief Association Bylaws

Condition: The relief association did not maintain minutes of meetings as required by the VFRA Act and the relief association's bylaws. Specifically, the following deficiencies existed in the relief association minutes of meetings that were provided by the Relief Association Secretary:

- Lack of documentation of discussion of all financial-related transactions.
- Some minutes of meetings were not signed by the relief association secretary (only two out of four meeting minutes were signed).
- The attendance of members and officers was not documented.
- The exact date of the meetings were not specified (only the month and year was noted).

A similar condition was noted in our prior audit report, which found that the relief association did not maintain meeting minutes to provide a record of relief association business, as required by the VFRA Act.

During the current audit period, the relief association also did not adhere to the following provisions in its bylaws:

- Conducting meetings on a monthly basis.
- Approval for all expenditures by a majority vote at an association meeting and recorded in the minutes.
- Signatures of at least three relief association officers on checks. See Finding No. 4 for additional information.

According to the book of minutes provided by the Relief Association Secretary, there was one meeting held in 2015, no meetings held during 2016 or 2017, one meeting held during 2018, two meetings held during 2019, and no meetings in 2020. The relief association's February 2019 meeting minutes documented that the relief association voted to change the frequency of the relief association's meetings to two times per year instead of monthly; however, this change was not formalized in the relief association bylaws.

Criteria: Section 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.

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Section 7415(c)(2) of the VFRA Act states, in part, that the relief association:

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....

The relief association's bylaws include the following:

Article II, Section 1 (in part) – Regular meetings of this association shall be on the last Thursday of each month immediately following the regular meeting of the fire department.

Article III, Section 3 – The duties of the secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note the authorization by the membership of all association financial transactions and all other pertinent business discussed at meetings.

Article V, Section 1 – Funds of this association shall not be expended for any purpose other than those authorized by the provisions of Act 118 and the association bylaws. All expenditures must be approved by a majority vote at an association meeting and duly recorded in the minutes.

Article VIII, Section 1 – The signatures of at least three officers, one of whom shall be the Treasurer, shall be required for the issuance of relief association checks, withdrawals from the association savings account, the redemption of any relief association investment or on any other negotiable instrument issued by the association.

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: The relief association officials did not provide a reason why meeting minutes were not maintained adequately despite the relief association being notified of this condition during our prior audit. Regarding the failure to adhere to the relief association bylaws, the Relief Association Treasurer indicated that membership is low and that the relief association cannot meet quorum requirements on a monthly basis in order to hold a meeting. Therefore, they could not get a majority vote on approving expenditures. Relief officials did not provide a reason for why the relief association bylaws were not updated to reflect the change in the frequency of the relief association meetings that was noted in the minutes.

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The conditions noted above represent significant deficiencies in the relief association's internal controls, significantly reduced the transparency of the relief association's operations and transactions to its membership, significantly increased the risk of fraudulent activity occurring and going undetected, and represent noncompliance with the VFRA Act. Additionally, as a result of the failure to follow the mandatory provisions stipulated in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We again recommend that the relief association officials hold regular meetings in accordance with the relief association's bylaws and maintain detailed minutes of the meetings that document the discussion and approval of all financial-related business conducted by the relief association. We further 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 and maintain internal control over the relief association's financial affairs. Furthermore, the adoption of set meetings during the calendar year should be amended in the bylaws, with the inclusion of a special meeting, as designated by officials, in order to pay emergency expenses. 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. The Relief Association Treasurer also indicated that the relief association will have meetings as needed in order to pay expenditures.

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

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Define Discretionary Benefits And Presentation Of Fabricated Minutes

Condition: The relief association did not formally define and approve discretionary benefits/officers' compensation that was being offered to its members. During the current audit period, the relief association paid \$5,730 (Check No. 1122 for \$2,400 and Check No. 1131 for \$3,330) in officers' compensation, all of which was paid to the Relief Association Treasurer in calendar year 2016, and which the Relief Association Treasurer stated was for services rendered during 2014, 2015, and 2016. Although this type of expenditure is authorized by the VFRA Act, the compensation is only authorized to be paid when the amounts and criteria to be met are described in a formal policy, which does not exist, and subsequently approved by the relief association membership. There is no evidence to support that this occurred. In addition, the officers' compensation paid to this individual during the audit period was over 20% of the state aid received during the audit period and therefore may be excessive.

The payments were not included in the minutes provided by the Relief Association Secretary, and the relief association could not provide evidence that the payments were disclosed to the relief association membership and approved.

The Relief Association Treasurer acknowledged that she provided fabricated minutes to the auditor for the years 2011 through 2019, which included alleged approval of the \$5,730 of officer compensation paid to the Relief Association Treasurer during the period from January 5, 2016 to December 29, 2016. We asked the Relief Association Secretary, who is responsible for preparing the minutes, if he maintained minutes, and he stated that he did and provided minutes that differed from those previously provided by the Relief Association Treasurer. When we questioned the Relief Association Treasurer about the differences between the minutes that she provided and those provided by the Relief Association Secretary and that it appeared that the minutes she provided were fabricated, the Relief Association Treasurer indicated that she kept a separate minute book to provide the auditor and also indicated that she signed the Relief Association Secretary's name to each set of meeting minutes provided to the auditor.

The payments to the Relief Association Treasurer were made via two checks. Check number 1122 was for \$2,400, dated 1/5/16, and made out to the name of the Relief Association Treasurer. The memo line on the copy of the check we obtained from the bank was blank; however, it appears that someone used an ink pen to write "2014/2015 Salary" on a printed copy of the imaged cancelled check that she provided to the auditor. Check no. 1131 was for \$3,330, dated 12/29/16, and made out to the name of the Treasurer. The memo line on the copy of the check we obtained from the bank was "Brush Truck"; however, it appears someone wrote over the words "Brush Truck" with an ink pen to write "officer" followed by two illegible words on the memo line of a printed copy of the imaged cancelled check that the Relief Association Treasurer provided to the auditor. Refer to Finding No. 4 for details on the signatories for these checks.

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

During the audit exit conference, the Relief Association Treasurer indicated that there was a discussion regarding officer compensation, but it was not discussed at a relief association meeting. However, the fabricated meeting minutes provided by the Relief Association Treasurer include entries of alleged approval for the officer compensation during meetings in November 2015 and November 2016. The Relief Association Secretary also stated that he was unaware that the Relief Association Treasurer was being paid a salary.

Criteria: Section 7416 (f)(1) 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.
(Emphasis added.)

Section 7415 of the VFRA Act states:

- (a) A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it 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 bylaws, at Article III, Section 3, indicate the duties of the secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note the authorization by the membership of all association financial transactions and all other pertinent business discussed at meetings.

Furthermore, prudent business practice dictates that when a relief association offers death benefits, disability benefits, officer compensation, 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 relief 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 as the criteria to be met in order to receive the benefits.

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: The Relief Association Treasurer acknowledged that she fabricated the meeting minutes but she did not provide a reason as to why she provided fabricated meeting minutes to our auditors. As noted above, we were not provided any credible evidence that the relief association approved the payment of officers' compensation to the Treasurer or that any officers other than the Relief Association Treasurer and likely the Relief Association President were aware of the payments.

Effect: The lack of the relief association membership's approval of officer compensation payments to the Relief Association Treasurer within the Relief Association Secretary's minutes and the Relief Association Treasurer's admission of providing fabricated minutes to the auditor that included alleged membership approval of the payments calls into question the legitimacy of these payments. 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 documentation of formal approval increases the risk of unauthorized expenditures occurring and could also lead to benefits not being applied equally to all members of the relief association. Because of the lack of evidence of the payments to the Relief Association Treasurer being properly approved by the relief association, we consider those expenditures to be unauthorized payments.

Recommendation: Relief association officials should seek to recoup the officer compensation that was paid to the Relief Association Treasurer without the membership's approval. Relief association officials should also ensure that before any future discretionary benefits/officers' compensation is offered to its membership or paid, the criteria for receipt of the benefits/compensation are formally defined and documented in the bylaws, a policy statement, and in the official meeting minutes. Such documentation should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the criteria to be met before receiving the benefit. Furthermore, all approved discretionary benefits should be in accordance with provisions of the VFRA Act. We further recommend that the preparation of minutes of meetings be solely performed by the Relief Association Secretary and that the relief association implement internal controls to ensure that the association membership and our auditors be provided official minutes prepared and signed by the Secretary. 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. The Relief Association Treasurer also indicated that she will reimburse the relief association the total amount of the officer compensation that she paid to herself which totals \$5,730. The Relief Association Treasurer also indicated that she would refrain from fabricating minutes in the future.

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Auditor's Conclusion: We strongly encourage timely implementation of the recommendation noted in this audit report. We are also concerned that the relief association membership is unaware of the financial management of the relief association, specifically check writing for all relief association expenditures, including compensation paid to officers. Subsequent to the audit period, the relief association has received two checks from the Relief Association Treasurer in the amounts of \$2,400 and \$3,330 which were deposited on 4/9/21 and 4/12/21, respectively. We reviewed documentation verifying that the reimbursement of \$5,730 was received. Compliance with the issuance of discretionary benefits/compensation will be subject to verification through our next audit. Due to concerns regarding the Relief Association Treasurer fabricating meeting minutes in particular as it relates to the approval of officer's compensation payments, the audit report is also being referred to the Luzerne County District Attorney's Office for further review as deemed appropriate.

Finding No. 3 – Unauthorized Expenditure

Condition: On June 13, 2018, the relief association expended \$656 for a push lawnmower during the current audit period that is not authorized by the VFRA Act.

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.

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

- (15) To purchase fire hoses and nozzles.

Costs associated with the purchase of a lawnmower do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under the VFRA Act.

Cause: Relief officials did not provide a reason for why this occurred.

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: As a result of this unauthorized expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by the VFRA Act.

Recommendation: We recommend that the relief association be reimbursed \$656 for the unauthorized expenditure 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 during the audit and, as a result of our audit, the affiliated fire company reimbursed the relief association \$656 for the unauthorized expenditure on October 2, 2020.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$656 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 4 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, all 30 checks drawn from the relief association's checking account did not contain the proper signatory authority, as the checks did not include three required signatures of relief association officials. Specifically, it was determined that of the 30 checks drawn, there were 28 checks containing the actual signatures of two relief association officers (Treasurer and President) and one rubber stamped signature of the Fire Chief of the affiliated fire company, who was not a relief association officer. The Relief Association Treasurer indicated that she used the signature stamp, and the Fire Chief indicated that he was not aware that his rubber stamped signature was being used on relief association checks. The two remaining checks bore the actual signatures of the Relief Association President, Relief Association Treasurer and the Fire Chief.

During interviews with the Relief Association Treasurer, our auditors learned that the Relief Association President and the Relief Association Treasurer, both of whom were authorized check signers and whose signatures authorized the officers' compensation checks (check numbers 1122 and 1131) described in Finding No. 2, were cohabitants/share the same residence and were in a long-term relationship. Therefore, the existence of this condition raises concerns of a related party transaction that may have been conducted at less than arms-length (i.e. not with the benefit of the relief association being the primary motivation).

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (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 VIII, Section 1 states:

The signatures of at least three officers, one of whom shall be the Treasurer, shall be required for the issuance of relief association checks, withdrawals from the association savings account, the redemption of any relief association investment or on any other negotiable instrument issued by the association.

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 did not provide a reason for why a rubber stamp was used for the Fire Chief's signature. Although the Fire Chief is not a relief association officer, the Relief Association Treasurer noted that the Fire Chief is listed as a signer on the relief association bank accounts and therefore, she assumed the Fire Chief was allowed to be a check signer.

Effect: As a result of the relief association officer issuing checks with only two actual signatures, assets were placed at greater risk as expenditures were being made without another relief association officer having the opportunity to verify the propriety of the expenditures. The application of the rubber stamped third signature without the individual completing a review of the appropriateness of the expenditure reduces the effectiveness of the intended purpose of the internal control procedure, which was for the signers to evaluate the propriety of the expenditure. The assignment of an authorized signer to someone who is not a member of the relief association is also inappropriate due to the lack of formal accountability that would exist for a relief association officer and member who is designated as an authorized signer. These deficiencies in the internal controls and operations of the relief association placed relief association assets at greater risk of misappropriation and increased the risk of errors occurring and going undetected. Furthermore, it is concerning that the signature stamp of a non-relief association officer (Fire Chief) was used, apparently without his knowledge or permission to authorize the use of state aid expenditures by the relief association.

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least three relief association officers, one of whom shall be the Relief Association Treasurer, are included on all relief association negotiable instruments as defined by the VFRA Act after the propriety of the expenditures have been determined. We also recommend that the relief association immediately discontinue the use of the signature stamp and to complete an updated signature card at the financial institution for relief association officers only.

Furthermore, we recommend that the relief association officials take the actions necessary to eliminate the conflicts of interest and the appearance of conflicts of interests. Actions should include, but are not limited to ensuring that authorized check signers are not related and/or do not live together. 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. 5 – Failure To Comply With Terms Of Loan Agreement

Condition: On February 27, 2014, the relief association made a loan to the affiliated Pioneer Volunteer Fire Department in the amount of \$12,000. Although the relief association received repayment of the loan of \$12,000, the relief association failed to receive any interest for the loan as required by the VFRA Act as noted below until we notified the relief association of this noncompliance. The relief association obtained reimbursement in the amount of \$360 from the affiliated fire department on March 5, 2018 for the required interest due on the loan.

Criteria: Section 7416 (c) of the VFRA Act requires that a minimum of three percent interest is required on the repayment of loans provided by the relief association.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure a three percent interest rate would be collected on the loan agreement.

Effect: The relief association did not comply with the VFRA Act prior to obtaining reimbursement from the affiliated fire department, which temporarily reduced the amount of funds unavailable for general operating expenses or for investment purposes.

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Recommendation: We recommend that relief association officials implement internal controls to provide assurance that interest is charged and collected for future loans. 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: Continued compliance for the collection of interest on future loans will be determined through our next audit of the relief association.

Finding No. 6 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association did not maintain a complete and accurate cumulative roster of all equipment owned by the relief association. Although a roster was eventually provided to our auditors during the conduct of the audit, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all equipment owned by the relief association. During the audit engagement, the Relief Association Treasurer presented a one page incomplete equipment roster which included two chainsaws that were noted to have been purchased in the audit period. However, our audit determined that this purchase was actually for a lawn mower, and we could not confirm that the lawn mower was in the possession of the relief association. The purchase of such equipment is considered an unauthorized expenditure as noted in Finding No. 3 of the audit report.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

PRINGLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Cause: The relief association officials did not provide a reason for why this occurred.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented to ensure all purchased items are in the possession 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.

PRINGLE 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

The Honorable Samuel M. Sanguedolce
Luzerne County District Attorney

Pringle Volunteer Firemen's Relief Association Governing Body:

Mr. Harold Marcy
President

Mr. Paul Podolak
Secretary

Ms. Karen Butler
Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association:

Ms. Karen Butler
Secretary
Pringle Borough

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.