

COMPLIANCE AUDIT

Russell Volunteer Fire Department Relief Association

Warren County, Pennsylvania

For the Period

January 1, 2017 to December 31, 2019

March 2021



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

Mr. Jacob Nugent, President
Russell Volunteer Fire Department
Relief Association
Warren County

We have conducted a compliance audit of the Russell Volunteer Fire Department Relief Association (relief association) pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2017 to December 31, 2019.

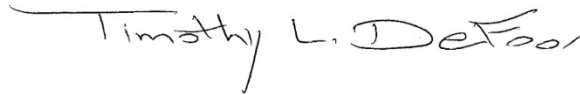
The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective identified above and was not, nor was it required to be, conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, including the safeguarding of assets. Relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, for the period January 1, 2017 to December 31, 2019, 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 finding listed below and discussed later in this report.

Finding – Failure To Segregate Relief Association Officers’ Duties And
Inadequate Signatory Authority For The Disbursement Of Funds

The contents of this report were discussed with the management of the relief association and, where appropriate their response has 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.

Handwritten signature of Timothy L. DeFoor in black ink.

TIMOTHY L. DEFOOR
Auditor General

February 8, 2021

CONTENTS

	<u>Page</u>
Background	1
Finding and Recommendation:	
Finding – Failure To Segregate Relief Association Officers’ Duties And Inadequate Signatory Authority For The Disbursement Of Funds	4
Report Distribution List	6

BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, 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 Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (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.

Act 118 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, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, 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.

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Pine Grove Township	Warren	\$13,257	\$12,071	\$13,158

Based on the relief association’s records, its total cash as of December 31, 2019 was \$ 8,470, as illustrated below:

Cash	<u>\$ 8,470</u>
------	-----------------

Based on the relief association’s records, its total expenditures for the period January 1, 2017 to December 31, 2019 were \$64,139, 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.¹ **The scope of the Department’s audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Benefit Services:	
Insurance premiums	<u>\$ 4,100</u>
Fire Services:	
Equipment purchased	\$ 7,742
Equipment maintenance	6,940
Training expenses	715
Total Fire Services	<u>\$ 15,397</u>
Administrative Services:	
Bond premiums	<u>\$ 200</u>
Other Expenditures:	
Payments on loan	<u>\$ 44,442</u>
Total Expenditures	<u>\$ 64,139</u>

¹ 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:

Russell Volunteer Fire Department

RUSSELL VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Failure To Segregate Relief Association Officers’ Duties And Inadequate Signatory Authority For The Disbursement Of Funds

Condition: We found that the same individual performed the duties of both president and treasurer for the latter portion of the audit period. We also identified 13 checks out of 24 checks drawn on the relief association’s checking account that only contained the signature of one officer, even though two signatures are required by Act 118 and the relief association’s bylaws. The President of the relief association signed the checks; however, the Treasurer of the relief association did not sign the checks that only contained one signature as required by Act 118 and the relief association’s bylaws. Furthermore, subsequent to the period under review, we identified three additional checks that only contained the signature of the President of the relief association. Issuing checks with the signature of only one officer negates the relief association’s internal control over the disbursement process.

Criteria: Prudent business practice dictates that the duties of the president 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.

Section 7415(c)(3) of Act 118 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.

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

The officers of this organization shall be President, Vice President, Treasurer, and Secretary.

In addition, the relief association’s bylaws at Article VII, Section 1 states, in part:

At least two signatures of officers must appear on any transaction involving relief association monies. One of whom must be the association bonded treasurer.

Furthermore, prudent business practice also 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.

RUSSELL VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: The relief association officials indicated that there was a turnover with the individual that held the treasurer's position and the relief association President handled the duties until the position could be filled.

Effect: An inadequate segregation of duties could prevent relief association officials and members from effectively monitoring the relief association's financial transactions. Additionally, it negates the checks and balances necessary to detect and correct financial errors or irregularities in the relief association's accounting system. In addition, assets were placed at greater risk as expenditures were made without the signature of the disbursing officer. 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 ensure that there is adequate segregation of duties between the relief association's president and treasurer by electing a separate individual to the position of relief association disbursing officer/treasurer. We also recommend that the relief association officials review its accounting and internal control procedures to ensure that the duties being performed by the president and treasurer are sufficiently segregated so that relief association assets are adequately safeguarded. In addition, 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 Act 118. Furthermore, we recommend that the relief association officials review and meet the requirements set forth in the 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.

RUSSELL VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Russell Volunteer Fire Department Relief Association Governing Body:

Mr. Jacob Nugent
President

Mr. Thomas Anderson
Vice President

Ms. Persephanie Harkins
Treasurer

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

Ms. Julie Parmenter
Secretary
Pine Grove 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.