

COMPLIANCE AUDIT

Stoneboro Volunteer Fire Company Relief Association Mercer County, Pennsylvania For the Period January 1, 2021, to December 31, 2022

January 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**

Mr. William Ewing, President
Stoneboro Volunteer Fire Company
Relief Association
Mercer County

We have conducted a compliance audit of the Stoneboro Volunteer Fire Company Relief Association (relief association) for the period January 1, 2021, 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, 2021, 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 – Improper Receipts Of State Aid

Finding No. 2 – Unauthorized Expenditures

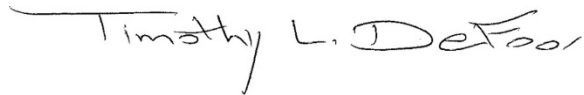
Finding No. 3 – Failure To Maintain Surety (Fidelity) Bond Coverage

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

Finding No. 5 – Inadequate Minutes Of Meetings And Relief Association Bylaws

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

The contents of this report were discussed with the management of the relief association and, where appropriate, their responses have been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor
Auditor General
January 11, 2024

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Improper Receipts Of State Aid.....	4
Finding No. 2 – Unauthorized Expenditures.....	5
Finding No. 3 – Failure To Maintain Surety (Fidelity) Bond Coverage.....	6
Finding No. 4 – Inadequate Signatory Authority For The Disbursement Of Funds.....	7
Finding No. 5 – Inadequate Minutes Of Meetings And Relief Association Bylaws	9
Report Distribution List	11

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.

¹ 72 P.S. § 403 (as last amended by Act 44 of 2017).

² 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

³ 53 P.S. § 895.701 *et seq.* Act 205 of 1984, as amended by Act 119 of 1990).

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2021</u>	<u>2022</u>
Lake Township	Mercer	\$3,502	\$4,035
Sandy Lake Township	Mercer	\$2,738	\$3,311
Stoneboro Borough	Mercer	\$4,018	\$4,565

Based on the relief association’s records, its total cash as of December 31, 2022, was \$13,249, as illustrated below:

Cash	<u><u>\$ 13,249</u></u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2021, to December 31, 2022, were \$31,985, 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	<u>\$ 3,988</u>
Fire Services:	
Equipment purchased	\$ 24,674
Equipment maintenance	1,990
Training expenses	300
Total Fire Services	<u>\$ 26,964</u>
Administrative Services:	
Bond premiums	\$ 200
Other administrative expenses	93
Total Administrative Services	<u>\$ 293</u>
Other Expenditures:	
Unauthorized Expenditures – See Finding No. 2	<u>\$ 740</u>
Total Expenditures	<u><u>\$ 31,985</u></u>

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:

Stoneboro Volunteer Fire Company

STONEBORO VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Improper Receipts Of State Aid

Condition: The relief association improperly received state aid allocations from The Jackson Center Volunteer Firemen’s Relief Association for the years 2021 and 2022 in the amounts of \$2,095 and \$2,461, respectively, and deposited the funds into the relief association’s account on December 20, 2021, and October 31, 2022, respectively.

Criteria: Relief association state aid funds should not be received from another relief association since the state aid funds are to be allocated to relief associations directly from the receiving municipality. In addition, adequate accounting and internal controls should include procedures to prevent improper receipts.

Cause: The relief association officials stated the decision to split the state aid was a “gentlemen’s agreement” between the two relief associations.

Effect: As a result of the improper receipts of state aid, the funds were inappropriately allocated to a relief association which was not duly recognized as actively engaged in servicing the originating municipality rendering the funds not available for the safety of its community.

Recommendation: We recommend that the relief association officials reimburse Jackson Center Volunteer Fire Company \$4,556 for the improper receipt of state aid because the affiliated fire company had previously reimbursed The Jackson Center Volunteer Firemen’s Relief Association. In addition, the relief association should adopt internal control procedures to ensure that state aid allocations are received in accordance with Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). 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 relief association reimbursed the affiliated fire company of The Jackson Center Volunteer Firemen’s Relief Association \$4,556 on October 21, 2023, for the improper receipts of state aid.

Auditor’s Conclusion: We reviewed documentation verifying that the reimbursement of \$4,556 was made. Compliance for improper receipts of state aid will be subject to verification through our next audit.

STONEBORO VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by the VFRA Act:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
05/06/2021	715	Clothing vendor – T-shirts/sweatshirts	\$ 654
12/13/2022	731	Affiliated fire company – payment of PA sales tax	56
12/13/2022	731	Affiliated fire company store membership card	<u>30</u>
Total			<u>\$ 740</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.

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

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.

Costs associated with non-firefighting clothing, payment of Pennsylvania sales tax, and store membership cards do not qualify as authorized volunteer firefighters’ relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

STONEBORO VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by the VFRA Act. In addition, because of stipulations within the VFRA Act, failure to obtain reimbursement of the improperly expended funds will result in a withholding of future state aid fund disbursements until the improperly expended fire relief association monies identified in the finding have been reimbursed to the relief association.

Recommendation: We recommend that the relief association be reimbursed \$740 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. All supporting documentation verifying the receipt of reimbursement for unauthorized expenditures should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 316-E Finance Building, Harrisburg, PA 17120. 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. 3 – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: Subsequent to our audit period, the relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by the VFRA Act. The relief association’s Surety (Fidelity) bond coverage expired on May 1, 2023. As of May 1, 2023, the relief association’s cash assets totaled \$9,775.

Criteria: Section 7415(c)(4) of the VFRA Act states, in part, 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 the funds of the association.

STONEBORO VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Relief association officials indicated that they switched insurance companies and did not realize Surety (Fidelity) bond coverage was not issued on the relief association's authorized disbursing officer.

Effect: As a result of the authorized disbursing officer of the relief association not being bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials obtain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by the VFRA Act. 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 relief association obtained bond coverage in the amount of \$25,000 on November 1, 2023.

Auditor's Conclusion: We reviewed documentation verifying that bond coverage was obtained on November 1, 2023. Compliance for maintaining bond coverage 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, we identified 21 checks out of 21 checks drawn on the relief association's checking that contained two signatures; however, one of the signatures was a trustee of the affiliated fire company who was not an authorized officer as stated in the relief association's bylaws. All 21 checks were signed by the disbursing officer as required by the VFRA Act.

In addition, the relief association failed to establish adequate internal controls by using a signature stamp to affix both signatures to the checks. During the audit period, the signature stamps were used on all checks. Furthermore, during post audit testing from January 1, 2023, to October 31, 2023, the stamp was used on all seven checks that were issued by the relief association.

Issuing checks without the signature of an authorized officer in addition to the disbursing officer and issuing checks without the actual signatures of a relief association officer negates the relief association's internal control over the disbursement process.

STONEBORO VOLUNTEER FIRE COMPANY 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.

The relief association's bylaws at Article # 3, Section 1 states:

The officers of this association shall consist of-President, [*sic*] Vice President, Secretary, and Treasurer.

In addition, the relief association's bylaws at Article # 7, Section 2 states:

The treasurer shall sign all checks jointly with the secretary, or the president in the absence of the secretary, upon the receipt of a proper order signed by the president or vice president and the secretary.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: The relief association officials stated they were unaware a fire company trustee could not sign checks. A reason was not provided by the relief association officials regarding the use of signature stamps.

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets. As a result of the relief association officers issuing checks with only one official's signature and the use of a signature stamp, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

STONEBORO VOLUNTEER FIRE COMPANY 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 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. We also recommend that the relief association officials adopt internal control procedures which require that all checks be signed and discontinue the use of the signature stamp. 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 – 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 meeting minutes were not signed and dated by the recording officer. In addition, 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).

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.

The relief association’s bylaws at Article # 6, Section 1 states:

It shall be the duty of the secretary to keep a correct roll of the Active members attending each meeting and to keep full minutes of the proceedings.

STONEBORO VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

In addition, the relief association's bylaws at Article # 10, Section 1 states:

Funds of this association may be invested by the treasurer with authorization of a majority of the members present at any regular meeting within the bounds of SECTION 6(c) of Act 84.

Cause: The relief association officials stated the secretary of the relief association failed to sign the meeting minutes and did not provide a reason why the bylaws were not updated to meet the requirements of the VFRA Act.

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: We recommend 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, we recommend 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 our next audit.

STONEBORO VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Stoneboro Volunteer Fire Company Relief Association Governing Body:

Mr. William Ewing
President

Mr. Brent Booher
Vice President

Ms. Leah Rouse
Secretary

Mr. Roger Somers
Treasurer

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

Ms. Deanna Yarnell
Secretary
Lake Township

Ms. Heather K. Bacher
Secretary
Sandy Lake Township

Ms. Laurie McLallen
Secretary
Stoneboro Borough

STONEBORO VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
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