

COMPLIANCE AUDIT

Utica Volunteer Firefighters Relief Association

Venango County, Pennsylvania

For the Period

January 1, 2019, to December 31, 2021

February 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Larry Dunkerley, President
Utica Volunteer Firefighters
Relief Association
Venango County

We have conducted a compliance audit of the Utica Volunteer Firefighters Relief Association (relief association) for the period January 1, 2019, to December 31, 2021. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the findings contained in 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.

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.

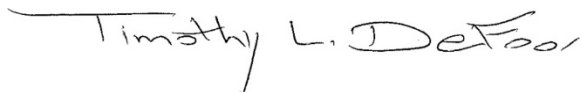
Based on our audit procedures, we conclude that, for the period January 1, 2019, to December 31, 2021:

- The relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below, and discussed in the Status of Prior Findings section of this report.
- The relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Untimely Receipt And Deposit Of State Aid

Finding No. 2 – 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 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 26, 2023

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code¹, and the Volunteer Firefighters' Relief Association Act² ("VFRA Act"), the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law³ (commonly referred to as Act 205) are properly expended.

The relief association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

The VFRA Act governs the overall operation of volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct business. To fulfill its primary purpose, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, it is the responsibility of relief associations to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the 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.

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>2019</u>	<u>2020</u>	<u>2021</u>
Canal Township	Venango	\$5,106	\$5,157	\$4,668
Frenchcreek Township	Venango	\$2,651	\$2,660	\$2,371*
Utica Borough	Venango	\$ 815	\$ 827	\$ 742

* The 2021 state aid allocation received from Frenchcreek Township was not deposited by the relief association until January 31, 2022, as disclosed in Finding No. 1 in this report.

Based on the relief association’s records, its total cash as of December 31, 2021, was \$12,825, as illustrated below:

Cash \$ 12,825

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2021, were \$28,256, 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>\$ 3,792</u>
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Fire Services:

Equipment purchased	\$ 20,880
Equipment maintenance	3,254
Training expenses	200
Total Fire Services	<u>\$ 24,334</u>

Administrative Services:

Bond premiums	\$ 100
Other administrative expenses	30
Total Administrative Services	<u>\$ 130</u>

Total Expenditures	<u><u>\$ 28,256</u></u>
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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:

Utica Volunteer Fire Company

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

UTICA VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Untimely Deposit Of State Aid

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.

UTICA VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Untimely Receipt And Deposit Of State Aid

Condition: The relief association did not deposit the 2021 state aid allocation it received from Frenchcreek Township, in the amount of \$2,371, until January 31, 2022. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2021; however, municipal officials failed to forward the state aid allocation to the relief association until December 17, 2021, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). In addition, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

A similar condition was noted in our prior audit report.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: The relief association officials indicated that the municipality did not send the state aid allocation check in a timely manner; however, relief association officials did not provide a reason why the funds were not deposited timely once received. The new municipal secretary stated that she was not aware that the prior municipal secretary did not send the state aid allocation.

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds increases the risk that funds could be lost or misappropriated.

UTICA VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the relief association officials adopt internal control procedures to ensure the timely receipt and deposit of all future income received. 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. 2 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 12 checks out of 14 checks, and three checks in the post audit period, drawn from the relief association’s checking account that did not contain the proper signatory authority. Ten of the twelve current audit period checks and the three post audit period checks contained the signature of the Fire Chief and a relief association officer who was not the relief association’s disbursing officer. The remaining two checks contained the signature of the Fire Chief and the relief association disbursing officer even though two authorized officers’ signatures are required by the VFRA Act and the relief association’s bylaws, with one of those signatures being that of the disbursing officer. Issuing checks with the signature of only one relief association officer and/or without the signature of the disbursing officer and/or 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.

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

The officers this association shall consist of a president, vice president, secretary, Treasurer and recording secretary. [*Sic*]

UTICA VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

The signature of two officers (one to be Treasurer) shall be required for the issuance of checks, withdrawal from savings account, or any other negotiable instruments issued by the Association.

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 indicated that the then-disbursing officer resided out of state for part of each year.

Effect: As a result of the relief association officers issuing checks without the signature of two officers, with one being the disbursing officer, 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 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 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 that a new treasurer has been elected to resolve the finding.

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

UTICA VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Utica Volunteer Firefighters Relief Association Governing Body:

Mr. Larry Dunkerley
President

Ms. Vicki Clark
Secretary

Ms. Andy Baker
Treasurer

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

Ms. Teresa Hollabaugh
Secretary
Canal Township

Ms. Misty Anderson
Secretary
Frenchcreek Township

Ms. Marian Murphy
Secretary
Utica 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.