

# COMPLIANCE AUDIT

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## The Black Forest Firemen's Relief Association Lycoming County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

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October 2021



Commonwealth of Pennsylvania  
Department of the Auditor General  
Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR  
AUDITOR GENERAL

Mr. William C. Kelly, President/Treasurer  
The Black Forest Firemen's  
Relief Association  
Lycoming County

We have conducted a compliance audit of The Black Forest Firemen's 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. 17) January 1, 2018 to December 31, 2020), 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, 2018 to December 31, 2020.

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, 2018 to December 31, 2020:

- The relief association took appropriate corrective action to address one of the four findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the three remaining findings 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 – Inadequate Signatory Authority For The Disbursement Of Funds

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Minutes Of Meetings

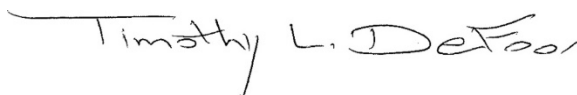
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Inadequate Surety (Fidelity) Bond Coverage

Finding No. 4 – Unauthorized Expenditures

Finding No. 5 – Inadequate Relief Association Bylaws And Failure To Adhere To Relief Association Bylaws

Three of the five findings contained in this report cite conditions that existed in the operation of the relief association during the prior audit period and were not corrected during the current audit period. 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.



September 16, 2021

Timothy L. DeFoor  
Auditor General

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## 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. 17 January 1, 2018 to December 31, 2020), 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:

Municipality	County	2018	2019	2020
Brown Township	Lycoming	\$642	\$100	\$209

Based on the relief association’s records, its total cash as of December 31, 2020 was \$2,403, as illustrated below:

Cash	\$ 2,403
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Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$12,344, 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.<sup>1</sup> **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	\$ 2,764
Administrative Services:	
Other Administrative expenses*	\$ 4,500
Bond premiums	250
Total Administrative Services	\$ 4,750
Other Expenditures:	
Unauthorized expenditures	\$ 4,830
Total Expenditures	\$ 12,344

\*During 2019, the relief association made an erroneous deposit. Once it was discovered, the affiliated fire company was reimbursed \$4,500 on 12/19/2019.

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<sup>1</sup> 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:

Black Forest Fire Company

THE BLACK FOREST FIREMEN'S RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Untimely Deposit Of State Aid

By timely depositing all income received.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with three of the four prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Inadequate Signatory Authority For The Disbursement Of Funds
- Failure To Maintain Minutes Of Meetings
- Insufficient Surety (Fidelity) Bond Coverage

Although the relief association officials increased the Surety (Fidelity) bond coverage to an amount greater than the balance of the relief association's cash assets, the bond coverage is inadequate as further disclosed in Finding No. 4 of this report.



THE BLACK FOREST FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Signatory Authority For The Disbursement Of Funds**

Condition: During the current audit engagement, we identified all six checks drawn from the relief association's checking account that did not contain the proper signatory authority. The checks contained the signature of the Vice-President of the relief association and a Director; however, neither of the two signatures were that of the Treasurer of the relief association (disbursing officer) as required by the Volunteer Firefighters Relief (VFRA) Act.

A similar condition was noted in our prior audit report.

Criteria: 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.

In addition, the relief association's bylaws at Article 8, Section 1 states, in part:

The President shall preside at all meetings of the Association; he shall sign all orders or vouchers on the Treasury after they are signed by the Treasurer.

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 did not provide a reason for why this occurred despite the relief association being notified of a similar condition during our prior audit.

Effect: As a result of the relief association officers issuing checks with improper signatures, assets were placed at greater risk as expenditures were being made without the Treasurer of the relief association having the opportunity to verify the propriety of the expenditures. The application of the correct officers' signatures, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

THE BLACK FOREST FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We again 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 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 indicated they will take action to comply with the recommendation.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Minutes Of Meetings**

Condition: The relief association failed to maintain detailed and accurate minutes of meetings as required by the VFRA Act and the relief association's bylaws. Specifically, the relief association's meeting minutes were a cumulative list of 2019 transactions that did not address all of the financial-related transactions that occurred during the entire audit period. In addition, the relief association officials did not maintain meeting minutes during 2018 and 2020, as required by the VFRA Act.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(a) of Act 118 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 BLACK FOREST FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

The relief association's bylaws at Article 6, Section 1 states, in part:

Regular meeting of this association shall be held when needed on the first Tuesday of the month following the regular meeting of the Black Forest Fire Company. Each and every member shall be notified twenty-four hours in advance of said meeting.

In addition, the relief association's bylaws at Article 8, Section 3 states, in part:

The Secretary shall keep a complete record of the proceedings of all meetings of the Association; [*Sic*]

Cause: The relief association officials did not provide a reason for why this occurred despite the relief association being notified of this condition during our prior audit.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We again recommend that the relief association officials maintain a permanent record of all relief association meetings as required by the VFRA Act. We also recommend that the relief association officials maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

THE BLACK FOREST FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Noncompliance With Prior Audit Recommendation – Inadequate Surety (Fidelity) Bond Coverage**

Condition: Although the relief association officials increased the Surety (Fidelity) bond coverage to an amount greater than the balance of the relief association's cash assets, the relief association failed to maintain adequate Surety (Fidelity) bond coverage on the association's disbursing officer, as required by the VFRA Act. Specifically, the Surety (Fidelity) bond policy in effect, during and subsequent to the audit period, was issued in the name of a Director of the relief association who was the previous Treasurer of the relief association as a name schedule bond.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(c)(4) of Act 118 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.

Since it appears that the relief association elected a new treasurer in January 2018, the relief association should maintain a Surety (Fidelity) bond in the name of the new relief association's treasurer to ensure that there is adequate protection of relief association assets.

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

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

Recommendation: We recommend that the relief association officials ensure that the disbursing officer is adequately covered by a faithful performance Surety (Fidelity) bond as required by the VFRA Act. This requirement may be accomplished by obtaining a Surety (Fidelity) bond in the new relief association's treasurer's name or obtaining a position schedule bond policy instead of a name schedule. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

THE BLACK FOREST FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

**Finding No. 4 – 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>
07/18/2019	1019	Auto and property Insurance	\$ 2,366
08/04/2020	1023	Auto and property Insurance	2,464
Total			\$ 4,830

Criteria: Section 7416(f) of Act 118 states:

The funds of any volunteer firefighters' relief association may be spent:

- (2) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

THE BLACK FOREST FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

- (4) To pay in full or in part for damage or loss in any of the categories mentioned in paragraph (2) above in a specific case where; (i) no policy of insurance is in force covering the risk; or (ii) the amount payable under insurance policies in force is inadequate to cover the loss.
  
- (8) To contribute to or to purchase contracts of insurance which will contribute to the cost of rehabilitating and retraining volunteer firefighters who, by reason of their participation in the fire service, have suffered a major impairment of the ability to continue their vocation.
  
- (12) To secure insurance against the legal liability of volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or performing their duties as special fire police.

Costs associated with the purchase of fire company-owned property and auto insurance do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by the VFRA Act.

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.

Recommendation: We recommend that the relief association be reimbursed \$4,830 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of Act 118 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 at the audit exit conference and, as a result of our audit, the affiliated fire company reimbursed the relief association \$4,830 for the unauthorized expenditures plus the invoice balance of \$1,120 on June 18, 2021.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$5,950 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

THE BLACK FOREST FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 5 – Inadequate Relief Association Bylaws And Failure To Adhere To Relief Association Bylaws**

Condition: The existing bylaws of the relief association do not clearly address all of the provisions required by Section 7415(c) of Act 118. Specifically, the bylaws do not address the following:

- The requirement 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 officials did not adhere to a provision in the relief association's bylaws. Specifically, the relief association officials did not abide by the bylaw stipulation for nominating and electing officers of the relief association for a President, Vice President, Secretary, Treasurer and three Directors. During the audit and subsequent to the audit period, the President was performing the duties of the Treasurer.

Criteria: Section 7415(c) of Act 118 states that the relief association's bylaws should include the following provision:

- (3) Require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

The relief association's bylaws at Article 4, Section 1 states, in part:

The Association shall at the annual meeting, nominate and elect from among their own number, a President, Vice President, Secretary, Treasurer, and three Directors; each to serve for one year or until their successors are chosen and have qualified. (Emphasis added.)

In addition, the relief association's bylaws at Article 8, Section 1 states, in part:

The President shall preside at all meetings of the Association; he shall sign all orders or vouchers on the Treasury after they are signed by the Treasurer.

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: Relief association officials indicated that they were unaware of the bylaw guidelines established by the relief association.

THE BLACK FOREST FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 5 – (Continued)**

Effect: As a result of the relief association not following the mandatory provisions stipulated in the bylaws and the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization. In addition, having one person perform the duties of President and Treasurer results in an inadequate segregation of duties, which increases the risk of fraud.

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act and properly authorize the operating procedures of the relief association. We also recommend that the relief association officials 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 adequately segregates the duties of President and Treasurer. 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.



THE BLACK FOREST 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 Black Forest Firemen's Relief Association Governing Body:

**Mr. William C. Kelly**  
President/Treasurer

**Mr. Joseph Kowalski**  
Vice President

**Ms. Patricia Kowalski**  
Secretary

**Mr. Robert Saeger**  
Director

**Ms. Georgann Kelly**  
Director

**Ms. Elizabeth Greenwood**  
Director

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

**Ms. Eleanor L. Paucke**  
Secretary  
Brown Township

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).