

COMPLIANCE AUDIT

Nicholson Volunteer Firefighters No. 1 Relief Association Wyoming County, Pennsylvania For the Period January 1, 2021, to December 31, 2023

October 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Willard Irion, President
Nicholson Volunteer Firefighters No. 1
Relief Association
Wyoming County

We have conducted a compliance audit of the Nicholson Volunteer Firefighters No. 1 Relief Association (relief association) for the period January 1, 2021, to December 31, 2023. 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 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.

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 objectives. We believe that our audit provides a reasonable basis for our conclusions.

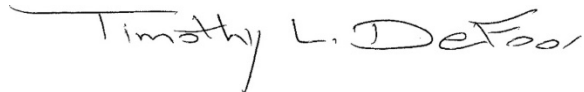
Based on our audit procedures, we conclude that, for the period January 1, 2021, to December 31, 2023:

- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, 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 – Noncompliance With Prior Audit Recommendation –
Untimely Receipt And Deposit Of Sate 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
October 1, 2024

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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 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>	<u>2023</u>
Lathrop Township	Susquehanna	\$1,344	\$1,568	\$1,619*
Lenox Township	Susquehanna	\$2,648	\$2,976	\$2,965
Nicholson Borough	Wyoming	\$3,057	\$3,503	\$3,487
Nicholson Township	Wyoming	\$7,468	\$8,783	\$8,105

* The 2023 state aid allocation received from Lathrop Township was not deposited by the relief association until May 22, 2024, as disclosed in Finding No. 1 in this report.

Based on the relief association’s records, its total cash and investments as of December 31, 2023, were \$184,343, as illustrated below:

Cash	\$ 67,337
Fair Value of Investments	<u>117,006</u>
Total Cash and Investments	<u>\$ 184,343</u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2021, to December 31, 2023, were \$133,374, 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>\$ 6,438</u>
Fire Services:	
Equipment purchased	\$ 18,562
Equipment maintenance	<u> 8,074</u>
Total Fire Services	<u>\$ 26,636</u>
Administrative Services:	
Bond premiums	<u>\$ 300</u>
Total Investments Purchased	<u>\$ 100,000</u>
Total Expenditures	<u><u>\$ 133,374</u></u>

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:

Nicholson Volunteer Fire Company

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

NICHOLSON VOLUNTEER FIREFIGHTERS NO. 1 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:

- Untimely Receipt And 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.

NICHOLSON VOLUNTEER FIREFIGHTERS NO. 1 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 2023 state aid allocation it received from Lathrop Township, in the amount of \$1,619, until May 22, 2024. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2023; however, municipal officials failed to forward the state aid allocation to the relief association until May 8, 2024, 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). According to the Municipal Statistics 2023 706B Form, the first 2023 state aid allocation check was meant to be sent to the relief association on October 4, 2023; however, the check was never delivered, and the municipal secretary had indicated that the check was outstanding in their records. Although the relief association had documentation that it had attempted to obtain the funds from the township, it was not until February 1, 2024. As a result of our audit, on May 8, 2024, the township forwarded a second state aid allocation check to the relief association and the relief association deposited the funds on May 22, 2024, into a relief association account.

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 the relief association officials should be questioning the municipality about their state aid and upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure state aid funds are obtained and deposited in a timely manner.

Cause: Relief association officials stated the non-receipt of the municipality check as reason for not timely depositing the state aid allocation funds.

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.

NICHOLSON VOLUNTEER FIREFIGHTERS NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We 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: 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 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 16 checks out of 25 checks drawn on the relief association’s checking account that only contained the signature of one officer (the Relief Association Treasurer), even though two signatures are required by the VFRA Act and the relief association’s bylaws. Issuing checks with the signature of only one 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.

In addition, the relief association’s bylaws at Article 15, states:

The signatures of at least two officers, one whom shall be the treasurer shall be required for the issuance of relief association checks.

Furthermore, prudent business practice dictates that the relief association have 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.

NICHOLSON VOLUNTEER FIREFIGHTERS NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials stated a lack of oversight as the reason for not securing a second relief association officer's signature on all issued relief association checks.

Effect: As a result of the relief association officers issuing checks with only one signature, 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.

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 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 they will take action to comply with the recommendation.

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

NICHOLSON VOLUNTEER FIREFIGHTERS NO. 1 RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Nicholson Volunteer Firefighters No. 1 Relief Association Governing Body:

Mr. Willard Irion
President

Mr. David Schmidt
Vice President

Mr. Scott Aylesworth
Secretary

Mr. Richard S. Lochen, Jr.
Treasurer

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

Ms. Ann Marie Shevchuk
Secretary
Lathrop Township

Ms. Sharon Depue
Secretary
Lenox Township

Ms. Jessica Bower
Secretary
Nicholson Borough

Ms. Lisa Mihalina
Secretary
Nicholson Township

NICHOLSON VOLUNTEER FIREFIGHTERS NO. 1 RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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.