

COMPLIANCE AUDIT

Springboro Volunteer Fire Department and Relief Association Crawford County, Pennsylvania For the Period January 1, 2021, to December 31, 2023

September 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. David Bates, President
Springboro Volunteer Fire Department
and Relief Association
Crawford County

We have conducted a compliance audit of the Springboro Volunteer Fire Department and 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 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.

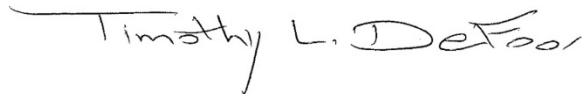
Based on our audit procedures, we conclude that, for the period January 1, 2021, to December 31, 2023, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Relief Association Checking Account And Investments At One Financial Institution Inappropriately Registered Under The Affiliated Fire Service Organization’s Federal Tax Identification Number

Finding No. 2 – Untimely Deposit Of State Aid

Finding No. 3 – 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
September 18, 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>
Beaver Township	Crawford	\$2,591	\$2,937	\$2,962
Cussewago Township	Crawford	\$1,196	\$1,394	\$1,385
Spring Township	Crawford	\$3,973	\$4,572	\$4,506
Springboro Borough	Crawford	\$1,541	\$1,549*	\$1,583

* The 2022 state aid allocation received from Springboro Borough was not deposited by the relief association until April 4, 2023, as disclosed in Finding No. 2 in this report.

Based on the relief association’s records, its total cash and investments as of December 31, 2023, were \$21,480, as illustrated below:

Cash	\$ 14,597
Fair Value of Investments	<u>6,883</u>
Total Cash and Investments	<u><u>\$ 21,480</u></u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2021, to December 31, 2023, were \$30,082, 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	\$	16,346
Relief benefits		65
Total Benefit Services	\$	<u>16,411</u>

Fire Services:

Equipment purchased	\$	10,060
Equipment maintenance		485
Training expenses		2,240
Total Fire Services	\$	<u>12,785</u>

Administrative Services:

Bond premiums	\$	750
Other administrative expenses		20
Total Administrative Services	\$	<u>770</u>

Other Expenditures:

Unauthorized sales tax paid *	\$	<u>116</u>
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Total Expenditures	\$	<u><u>30,082</u></u>
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* During calendar year 2023, the relief association made an insignificant disbursement in the amount of \$116 for the unauthorized payment of sales tax on a purchase that was authorized under the VFRA Act. We disclosed this issue to relief association officials on August 26, 2024, but we did not include a finding in this report due to the relatively low dollar amount.

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:

Springboro Volunteer Fire Department

SPRINGBORO VOLUNTEER FIRE DEPARTMENT AND RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Relief Association Checking Account And Investments At One Financial Institution Inappropriately Registered Under The Affiliated Fire Service Organization’s Federal Tax Identification Number

Condition: As of December 31, 2023, the relief association held \$14,598 in a checking account and \$2,565 in three Certificates of Deposit from one financial institution, with a total balance of \$17,163 which were inappropriately registered under the affiliated fire company’s federal tax identification number rather than the relief association’s identification number. These four investments represent 80 percent of the relief association’s monetary assets.

Criteria: Prudent business practice dictates that the relief association maintain ownership of all investments as a means of safeguarding its assets from unauthorized use or disposition.

Cause: The relief association officials stated that the investments were started under a prior administration and the investments have always been that way.

Effect: As a result of the investments being inappropriately registered under another entity’s federal tax identification number, these relief association assets were not properly safeguarded.

Recommendation: We recommend that the relief association officials secure ownership rights to all monetary assets. This requirement can be accomplished by ensuring that all investments are registered under the relief association’s federal tax identification number. 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 – Untimely Deposit Of State Aid

Condition: The relief association did not deposit the 2022 state aid allocation it received from Springboro Borough, in the amount of \$1,549, until April 4, 2023. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2022, who forwarded this state aid to the relief association on November 21, 2022, which is close to 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

SPRINGBORO VOLUNTEER FIRE DEPARTMENT AND RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 stated that this municipality tends to send out their state aid allocation late; however, the relief association officials did not provide a reason why they deposited the state aid allocation in an untimely manner.

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

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely 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.

SPRINGBORO VOLUNTEER FIRE DEPARTMENT AND RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified three checks out of 36 checks, and one check in the post audit period, drawn from the relief association’s checking account that did not contain the proper signatory authority. Two of the current audit period checks and one post audit check only contained the signature of the Relief Association Treasurer. The one remaining current audit period check did not contain the signature of the disbursing officer but did contain the signatures of two other relief association officers. 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 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 VII, Section 1 states, in part:

The signatures of at least two (2) officers one of whom shall be the treasurer, shall be required for the issuance of relief association checks, withdrawal from the association savings account.

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 that the treasurer was out of town when a check was signed without his signature. In addition, the relief officials stated that the checks with only one signature were due to errors on the treasurer’s behalf.

SPRINGBORO VOLUNTEER FIRE DEPARTMENT AND RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: As a result of the relief association officer issuing checks without the signature of the disbursing officer or with only one authorized 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 authorized 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.

SPRINGBORO VOLUNTEER FIRE DEPARTMENT AND RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Springboro Volunteer Fire Department and Relief Association Governing Body:

Mr. David Bates
President

Ms. Jenna Blount
Vice President

Ms. Helen Allen
Secretary

Mr. Ronald Kasper
Treasurer

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

Ms. Brenda Braden
Secretary
Beaver Township

Ms. Kaitlin Lopus
Secretary
Cussewago Township

Ms. Shelby Field
Secretary
Spring Township

Ms. Tiffany McCray
Secretary
Springboro Borough

SPRINGBORO VOLUNTEER FIRE DEPARTMENT AND RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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