

COMPLIANCE AUDIT

Galeton Firemen's Relief Association Potter County, Pennsylvania For the Period January 1, 2021, to December 31, 2023

July 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Robert Martin, President
Galeton Firemen's Relief Association
Potter County

We have conducted a compliance audit of the Galeton Firemen's 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 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 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.

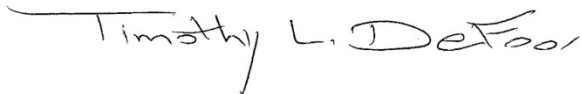
Based on our audit procedures, we conclude that, for the period January 1, 2021, to December 31, 2023:

- The relief association took appropriate corrective action to address two of the three 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 –
Insufficient Surety (Fidelity) Bond Coverage

Finding No. 2 – Untimely Receipt And Deposit Of State Aid

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
June 21, 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>
Galeton Borough	Potter	\$4,205	\$4,608	\$4,599
Hector Township	Potter	\$ 922	\$1,093	\$1,078
Pike Township	Potter	\$2,394	\$2,954**	\$3,232
Ulysses Township	Potter	\$1,344	\$2,495	\$2,472
West Branch Township	Potter	\$1,754	\$2,182	\$2,177
Gaines Township	Tioga	\$4,153*	\$5,303	\$5,267

* The 2021 state aid allocation received from Gaines Township was not deposited by the relief association until July 5, 2022, as disclosed in Finding No. 2 in this report.

** Although Pike Township prepared and returned a Certification Form AG 385 for 2022 by the March 31 annual filing date in accordance with Act 205, the township did not distribute the correct allocation amount for the 2022 state aid to the relief association in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2022, who forwarded a portion of this state aid to the relief association on October 4, 2022. Although the distribution was within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), the municipality sent the incorrect amount of state aid allocation to the relief association. As a result of our audit, the municipal secretary forwarded the remaining state aid allocation due the relief association in the amount of \$561 on March 11, 2024, and the relief association deposited the funds into the relief association account on March 19, 2024.

Based on the relief association’s records, its total cash and investments as of December 31, 2023, were \$180,818, as illustrated below:

Cash	\$ 81,840
Fair Value of Investments	<u>98,978</u>
Total Cash and Investments	<u><u>\$ 180,818</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 \$85,034, 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>\$ 7,572</u>
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Fire Services:

Equipment purchased	\$ 24,779
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Training expenses	<u>1,778</u>
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Total Fire Services	<u>\$ 26,557</u>
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Administrative Services:

Bond premiums	\$ 450
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Other administrative expenses	<u>85</u>
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Total Administrative Services	<u>\$ 535</u>
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Total Investments Purchased	<u>\$ 50,000</u>
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Other Expenditures:

Miscellaneous	\$ 100
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Unauthorized expenditure *	<u>270</u>
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Total Other Expenditures	<u>\$ 370</u>
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Total Expenditures	<u><u>\$ 85,034</u></u>
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* During calendar year 2021, the relief association made a \$270 disbursement that was not authorized under the VFRA Act. We disclosed this issue to relief association officials on February 22, 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:

Goodyear Hose Co No 1

GALETON FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Unauthorized Expenditures

By receiving reimbursement of \$7,125 from the affiliated fire company for the remaining balance due on the unauthorized expenditures made in a prior audit period.

- Failure To Disclose Related Party

By adopting internal control procedures to ensure that any related party situation is disclosed to the relief association membership and documented in the meeting minutes.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Insufficient Surety (Fidelity) Bond Coverage

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.

GALETON FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer during a portion of the audit period. The relief association's cash balance exceeded their Surety (Fidelity) bond coverage of \$100,000 for the first 17 out of 36 months of the audit period. As of December 31, 2023, the relief association's cash assets totaled \$81,840.

A similar condition was noted in our prior audit report.

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.

Cause: The relief association official stated that this situation was brought to their attention in the last audit which occurred after their annual meeting in 2021. The relief association met in the beginning of 2022 and approved to have the investment of funds transferred into a certificate of deposit to decrease the cash assets balance which took some time to complete.

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

Recommendation: We again recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by the VFRA Act. Relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

GALETON FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference.

Auditor's Conclusion: We reviewed documentation verifying that the relief association's cash assets were decreased below their maximum protection amount of Surety (Fidelity) bond coverage as of June 22, 2022. Compliance for sufficient bond coverage during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Untimely Receipt And Deposit Of State Aid

Condition: The relief association did not deposit the 2021 state aid allocation it received from Gaines Township, in the amount of \$4,153, until July 5, 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 June 27, 2022, 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). Upon receipt of the state aid allocation, the relief association did ensure the funds were deposited timely 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 if only one relief association is in the fire service area 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: The relief association official stated that it was not determined that the state aid allocation from Gaines Township was not received for 2021 until the annual relief association report was done in January 2022.

GALETON FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

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: Compliance will be subject to verification through our next audit.

GALETON FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Galeton Firemen's Relief Association Governing Body:

Mr. Robert Martin
President

Mr. Vince Bowen
Vice President

Ms. Nichole Shadle
Secretary

Ms. Alaina Knisely
Treasurer

Mr. Andrew Lychalk
Director

GALETON FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Ms. Andrea L. Caracciolo
Secretary
Galeton Borough

Ms. Bonnie French
Secretary
Hector Township

Ms. Katie A. Bodendorf
Secretary
Pike Township

Ms. Jessica Coffed
Secretary
Ulysses Township

Ms. Katie A. Bodendorf
Secretary
West Branch Township

Ms. Janet L. Green
Secretary
Gaines Township

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