

COMPLIANCE AUDIT

Hemlock Farms Volunteer Firemen's Relief Association

Pike County, Pennsylvania

For the Period

January 1, 2021, to December 31, 2023

August 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Robert Palumbo, President
Hemlock Farms Volunteer Firemen's
Relief Association
Pike County

We have conducted a compliance audit of the Hemlock Farms Volunteer 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 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.

We were not able to obtain independent confirmations of the cash balance and the investment balance directly from the financial institution. Therefore, while the relief association provided bank and investment statements that indicated that, as of December 31, 2023, the relief association had a cash balance of \$42,052 and an investment balance with a fair value of \$140,768, we were not able to verify those cash and investment balances.

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

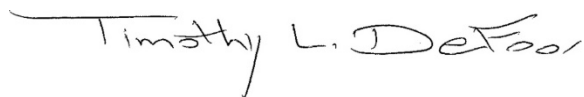
- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below, and discussed in the Status of Prior Finding section of this report.
- Except for the effects, if any, of the matter described in the preceding paragraph, 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 – Untimely Receipts And Deposits Of State Aid

Finding No. 3 – Insufficient Fidelity (Surety) Bond Coverage

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
July 16, 2024

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Signatory Authority For The Disbursement Of Funds	4
Finding No. 2 – Untimely Receipts And Deposits Of State Aid	5
Finding No. 3 – Insufficient Surety (Fidelity) Bond Coverage	6
Report Distribution List	8

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.

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>
Blooming Grove Township	Pike	\$16,213	\$ 20,838	\$ 21,111
Porter Township	Pike	\$ 4,158	\$ 5,324*	\$ 5,363*

* The 2022 and 2023 state aid allocations received from Porter Township were not deposited by the relief association until April 3, 2024, as disclosed in Finding No. 2 in this report.

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)

Based on the relief association’s records, its total cash and investments as of December 31, 2023, were \$182,820, as illustrated below:

Cash	\$ 42,052
Fair Value of Investments	<u>140,768</u>
Total Cash and Investments	<u>\$ 182,820</u>

Based on the relief association’s records, its total expenditures for the period January 1, 2021, to December 31, 2023, were \$93,904, 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>\$ 2,753</u>
Fire Services:	
Equipment purchased	<u>\$ 90,892</u>
Administrative Services:	
Bond premiums	\$ 200
Other administrative expenses	<u>59</u>
Total Administrative Services	<u>\$ 259</u>
Total Expenditures	<u>\$ 93,904</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:

Hemlock Farms Volunteer Fire & Rescue Company

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

HEMLOCK FARMS VOLUNTEER FIREMEN'S 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:

- Inadequate Signatory Authority For The Disbursement Of Funds

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.

HEMLOCK FARMS VOLUNTEER 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 two checks out of 11 checks drawn on the relief association's checking account that only contained the signature of one officer, the former 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.

A similar condition was noted in our prior audit report.

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:

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

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

Effect: As a result of the relief association officer 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.

HEMLOCK FARMS VOLUNTEER 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 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: 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 – Untimely Receipts And Deposits Of State Aid

Condition: The relief association did not deposit the 2022 and 2023 state aid allocations it received from Porter Township, in the amounts of \$5,324 and \$5,363, respectively, until April 3, 2024. The foreign fire insurance tax allocations were distributed to the municipal treasurer on September 21, 2022 and September 21, 2023 who forwarded the state aid to the affiliated fire company, not the relief association, on September 23, 2022 and October 2, 2023, respectively, and therefore were not distributed to the relief association 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 state aid allocations were erroneously deposited into the affiliated fire company's account. As a result of our audit, on April 3, 2024, the affiliated fire company reimbursed the relief association, and the state aid funds were deposited into the 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.

HEMLOCK FARMS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

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

Effect: As a result of the untimely receipts and deposits, funds were not available to pay general operating expenses or for investment purposes. In addition, untimely receipts and deposits 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.

Finding No. 3 – 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. The relief association's Surety (Fidelity) bond coverage amount was \$100,000; however, as of April 1, 2024, the relief association's cash assets totaled \$150,438.

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: Relief association officials failed to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with the VFRA Act provisions and did not provide a reason why this occurred.

HEMLOCK FARMS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 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. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, 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.

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.

HEMLOCK FARMS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Hemlock Farms Volunteer Firemen's Relief Association Governing Body:

Mr. Robert Palumbo
President

Mr. Kevin Dix
Vice President

Ms. Terri Bender Greenwald
Secretary

Ms. Laura Ritchie
Treasurer

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

Ms. Jo-Ann Donahue
Secretary
Blooming Grove Township

Ms. Theresa Koch
Secretary
Porter Township

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.