

COMPLIANCE AUDIT

Nanty-Glo Volunteer Fire Company No. 1 Relief Association Cambria 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. James Campbell, President
Nanty-Glo Volunteer Fire Company
No. 1 Relief Association
Cambria County

We have conducted a compliance audit of the Nanty-Glo Volunteer Fire Company 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 –
Inadequate Surety (Fidelity) Bond Coverage

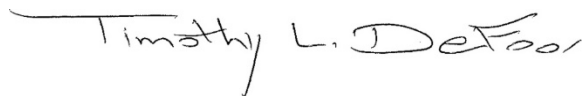
Finding No. 2 – Unauthorized Expenditures

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

Finding No. 4 – Failure To Maintain A Complete And Accurate Equipment
Roster

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.



Timothy L. DeFoor
Auditor General
July 15, 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>
Blacklick Township	Cambria	\$8,407	\$ 9,852	\$ 9,652
Nanty Glo Borough	Cambria	\$9,206	\$10,492	\$10,376

Based on the relief association’s records, its total cash and investments as of December 31, 2023, were \$111,470, as illustrated below:

Cash	\$ 26,913
Fair Value of Investments	<u>84,557</u>
Total Cash and Investments	<u>\$ 111,470</u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2021, to December 31, 2023, were \$102,410, 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:

Death benefits	\$	5,575
Tokens of sympathy and goodwill		25
Total Benefit Services	\$	<u>5,600</u>

Fire Services:

Equipment purchased	\$	41,273
Equipment maintenance		22,459
Training expenses		22,401
Fire prevention materials		1,486
Total Fire Services	\$	<u>87,619</u>

Administrative Services:

Bond premiums	\$	638
Other administrative expenses		20
Total Administrative Services	\$	<u>658</u>

Other Expenditures:

Unauthorized expenditures * – See Finding No. 2	\$	<u>8,533</u>
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Total Expenditures	\$	<u><u>102,410</u></u>
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* During calendar year 2024, subsequent to our audit period, the relief association made an insignificant disbursement in the amount of \$33 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 April 22, 2024, and included this amount in Finding No. 2.

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:

Nanty-Glo Volunteer Fire Company No. 1

NANTY-GLO VOLUNTEER FIRE COMPANY 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:

- Failure To Maintain Surety (Fidelity) Bond Coverage

Although the relief association obtained bond coverage in an amount greater than the relief association's maximum cash balance as recommended in the prior audit, the relief association had inadequate bond coverage in the current audit period as further disclosed in Finding No. 1 of this report.

We are concerned by the relief association's failure to fully correct this previously reported audit finding. The relief association management should strive to implement the recommendation and corrective action noted in this audit report.

NANTY-GLO VOLUNTEER FIRE COMPANY NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: Although the relief association obtained bond coverage in an amount greater than the relief association's maximum cash balance as recommended during the prior audit, the bond coverage is inadequate. 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 from January 1, 2023, until March 24, 2024, was issued as a name schedule bond covering a member who was no longer the disbursing officer.

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.

The relief association should maintain a Surety (Fidelity) bond on its disbursing officer to ensure that there is adequate protection of relief association assets.

Cause: Relief association officials indicated that they were unaware of the VFRA Act provision requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer despite the relief association being notified of this condition during our prior audit.

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 again 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 that covers the 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, as a result of our audit, the relief association corrected their bond policy to cover the current disbursing officer on March 25, 2024.

NANTY-GLO VOLUNTEER FIRE COMPANY NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Auditor’s Conclusion: We reviewed documentation verifying that the bond coverage was corrected to properly cover the current disbursing officer. Compliance for sufficient bond coverage during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended \$8,533 for the purchase of the affiliated fire company’s building security system during the current audit period that is not authorized by the VFRA Act. In addition, sales tax in the amount of \$33 was paid on an invoice in the subsequent audit period.

Criteria: Section 7416(f) of the VFRA Act states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service, including necessary training.

In addition, Section 7418(b) of the VFRA Act states:

- (b) Findings -- If the Auditor General finds that money received by a volunteer firefighters’ relief association has been expended for a purpose other than one authorized by this subchapter, the commissioner, upon receiving notice of the finding from the auditor general, shall decline to approve payment to the volunteer firefighters’ relief association until the improperly expended amount has been reimbursed to the relief association fund.

Costs associated with the purchase of the affiliated fire company’s building security system and payment of sales tax do not qualify as an authorized volunteer firefighters’ relief association expenditure; consequently, these disbursements are not authorized under the VFRA Act.

NANTY-GLO VOLUNTEER FIRE COMPANY NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: The relief association officials indicated that they were unaware that the expenditure for the building security system was not authorized by the VFRA Act, and that sales tax was paid.

Effect: As a result of this 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 \$8,566 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of the VFRA Act 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 \$8,566 for the unauthorized expenditures on March 25, 2024.

Auditor’s Conclusion: We reviewed documentation verifying that the reimbursement of \$8,566 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

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

Condition: During the current audit engagement, we identified 110 checks out of 137 checks drawn on the relief association’s checking account that did not contain the proper signatory authority. Specifically, for the 110 checks, we found:

- Seven checks contained only one relief association officer’s signature and did not include the signature of the disbursing officer. Four checks had the relief association recording secretary’s signature, two checks had the relief association’s personnel secretary’s signature, and one check had the signature of the vice president.
- Fourteen checks contained two signatures and did not include the signature of the disbursing officer. All checks included signatures from any combination of the relief association’s president, vice president, recording secretary, personnel secretary, and financial secretary.

NANTY-GLO VOLUNTEER FIRE COMPANY NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

- Eighty-seven checks contained three signatures and did not include the signature of the disbursing officer. All these checks included signatures from any combination of the relief association’s president, vice president, secretary, personnel secretary, and financial secretary; however, 17 of these checks included a signature from a non-officer and one check had a signature that we could not determine.
- Two checks contained four signatures and did not include the signature of the disbursing officer. Both checks had the signatures of the relief association’s president, personnel secretary, financial secretary, and a non-officer.

In addition, we identified 13 out of 19 checks drawn on the relief association’s checking account in the post audit period that did not contain the proper signatory authority. Specifically for the 13 checks, we found:

- Thirteen checks included three signatures; however, none contained the signature of the disbursing officer. The checks included any combination of the relief association’s president, recording secretary, personnel secretary, financial secretary, a non-relief association officer (two) and five checks had signatures that could not be determined.

Furthermore, issuing checks with the signature of only one relief association officer, without the signature of the disbursing officer, and with signatures of non-relief association officers 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 9, Section 2 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, redemption of any relief association investment, or any other negotiable instrument issued by the association.

NANTY-GLO VOLUNTEER FIRE COMPANY NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 why this occurred.

Effect: As a result of the relief association officers issuing checks without the signature of the disbursing officer and with only one authorized signature, assets were placed at greater risk without the disbursing officer having the opportunity to verify the propriety of the expenditures.

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 did not respond to our requests for their position regarding the finding being added after the audit exit conference.

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

Finding No. 4 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit, this listing was incomplete and did not accurately identify all the equipment owned by the relief association. The relief association purchased \$41,273 of equipment during the current audit period, but the equipment for \$1,733 of those purchases was not properly accounted for on the relief association's equipment roster. In addition, although relief association officials indicated by documenting on the equipment roster that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association, the equipment roster was not complete.

NANTY-GLO VOLUNTEER FIRE COMPANY NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association and perform and document an annual physical inventory of all operable equipment in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

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

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. 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.

NANTY-GLO VOLUNTEER FIRE COMPANY NO. 1 RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Nanty-Glo Volunteer Fire Company No. 1 Relief Association Governing Body:

Mr. James Campbell
President

Mr. Thomas Bracken
Vice President

Mr. Matthew Szymusiak
Secretary

Mr. Anthony Warynovich, III
Treasurer

Mr. Brody Lawrence
Personnel Secretary

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

Ms. Leigh Lanzendorfer
Secretary
Blacklick Township

Ms. Melissa Weekes
Secretary
Nanty Glo Borough

NANTY-GLO VOLUNTEER FIRE COMPANY NO. 1 RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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