

COMPLIANCE AUDIT

The Lake Shore Firemen's Relief Association Erie 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**

Ms. Sara O'Brien, President
The Lake Shore Firemen's Relief Association
Erie County

We have conducted a compliance audit of The Lake Shore 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.

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

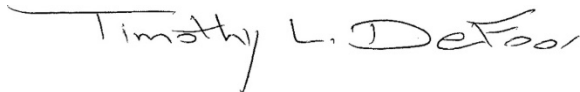
- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- The relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Untimely Deposit Of State Aid

Finding No. 2 – Failure To Adhere To Relief Association Bylaws And Inadequate Signatory Authority For Disbursement Of Funds

Finding No. 3 – Failure To Segregate Relief Association Officers' Duties

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 13, 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Fairview Township	Erie	\$14,870	\$19,201	\$19,106*

* The 2023 state aid allocation received from Fairview Township was not deposited by the relief association until January 30, 2023, as disclosed in Finding No. 1 in this report.

Based on the relief association’s records, its total cash as of December 31, 2023, was \$55,131, as illustrated below:

Cash	<u>\$ 55,131</u>
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BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2021, to December 31, 2023, were \$111,242, 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	\$	1,101
Relief benefits		96
Total Benefit Services	\$	<u>1,197</u>

Fire Services:

Equipment purchased	\$	80,851
Equipment maintenance		16,927
Training expenses		8,630
Fire prevention materials		1,748
Total Fire Services	\$	<u>108,156</u>

Administrative Services:

Bond premiums	\$	1,572
Other administrative expenses		136
Total Administrative Services	\$	<u>1,708</u>

Other Expenditures:

Unauthorized expenditures *	\$	<u>181</u>
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Total Expenditures	\$	<u><u>111,242</u></u>
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* During calendar years 2021, 2022, and 2023, the relief association made insignificant disbursements in the amounts of \$51, \$51, and \$79, respectively, for the unauthorized payment of hotel sales tax and travel allowance on purchases that were authorized under the VFRA Act. We disclosed these issues to relief association officials on February 16, 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:

Lake Shore Fire Department

THE LAKE SHORE FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Failure To Maintain Surety (Fidelity) Bond Coverage

By maintaining Surety (Fidelity) bond coverage in an amount greater than the balance of the relief association's cash assets.

THE LAKE SHORE FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Deposit Of State Aid

Condition: The relief association did not deposit the 2023 state aid allocation it received from Fairview Township, in the amount of \$19,106, until January 30, 2024. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2023, who forwarded the state aid to the relief association on October 24, 2023, which is within 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.

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: A relief association official stated that this was an oversight and lack of availability of the relief associations officers.

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.

THE LAKE SHORE FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Adhere To Relief Association Bylaws And Inadequate Signatory Authority For Disbursement Of Funds

Condition: The relief association did not adhere to some of the provisions in the association's bylaws. Specifically, the relief association did not abide by bylaw stipulations as noted below:

- The Board shall consist of a President, Vice President, Secretary, Treasurer and One (1) Director.
- The signature of the Treasurer and one other officer shall be required on all checks written by this association.

In addition, during the current audit engagement, we identified 70 checks out of 109 selected checks drawn from the relief association's checking account that did not contain the proper signatory authority. The 70 checks contained the signatures of two relief association officers; however, neither of the two signatures were that of the disbursing officer as required by the VFRA Act.

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 IV, Section 2 states, in part:

A checking account in the name of the Lake Shore Relief Association will be established. The signature of the Treasurer & one other officer shall be required on all the checks written by this association.

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. Finally, prudent business practice also dictates that the relief association should adhere to all provisions stipulated in the relief association's bylaws to ensure that the relief association conducts its affairs without proper authorization.

THE LAKE SHORE FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: A relief association official stated that the Treasurer resigned and then due to no relief association members being willing to fulfill the treasurer position, the position remains vacant.

Effect: As a result of the relief association officers issuing checks without the signature of the disbursing officer, 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 review the bylaws governing their organization and establish guidelines and procedures to meet the provisions contained in the bylaws in order to assure that the association conducts its affairs with proper authorization. We also 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, as a result of our audit, has filled the position of Treasurer in the subsequent audit period.

Auditor's Conclusion: Full compliance to satisfy the audit recommendation will be subject to verification through our next audit.

Finding No. 3 – Failure To Segregate Relief Association Officers' Duties

Condition: During the current audit, we detected that the President and Secretary were performing duties reserved for the position of the Treasurer.

Criteria: Prudent business practice dictates that the duties of the President, Secretary and Treasurer be sufficiently segregated. An adequate segregation of duties is the primary internal control intended to prevent or decrease the risk of errors or irregularities.

The minimum requirements of the President's position, pertaining to the relief association, are to preside at all meetings of the relief association, preserve order, enforce the by-laws here forth written and appoint committee's as necessary.

THE LAKE SHORE FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

The minimum requirements of the Secretary's position, pertaining to a relief association, are to maintain detailed minutes of meetings authorizing the relief association's financial operations. The Secretary should review and coordinate the amending of the bylaws governing the relief association so that the bylaws meet the minimum requirements of the VFRA Act.

The minimum requirements of the Treasurer's position, pertaining to a relief association, are to maintain an account of all funds belonging to the relief association. The Treasurer shall maintain a journal and ledger detailing all financial transactions of the relief association along with documentation supporting the receipts and disbursements. The Treasurer should co-sign all negotiable instruments along with another relief association officer. Also, financial statements should be prepared at least on an annual basis by the Treasurer.

Cause: A relief association official stated that the Treasurer resigned which caused two other relief association officers to perform the duties reserved for the Treasurer position.

Effect: An inadequate segregation of duties could prevent relief association officials and members from effectively monitoring the relief association's financial transactions. Additionally, it negates the checks and balances necessary to detect and correct financial errors or irregularities in the relief association's accounting system.

Recommendation: We recommend that the relief association officials ensure that there is adequate segregation of duties between the Relief Association's President, Secretary and Treasurer. We also recommend that the relief association officials review its accounting and internal control procedures to ensure that the duties being performed by the Secretary and Treasurer are sufficiently segregated so that relief association assets are adequately safeguarded. 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, has filled the position of Treasurer in the subsequent audit period.

Auditor's Conclusion: We reviewed documentation verifying that the position of Treasurer has been filled. Continued compliance for the adequate segregation of relief association officers' duties will be subject to verification through our next audit.

THE LAKE SHORE FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Lake Shore Firemen's Relief Association Governing Body:

Ms. Sara O'Brien
President

Mr. Daniel Kremer
Vice President

Ms. Jessica Watkins
Secretary

Mr. Cameron Manchester
Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association:

Ms. Michelle Barnes
Secretary
Fairview 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.