

# COMPLIANCE AUDIT

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## Lake City Firefighter's Relief Association of the State of Pennsylvania

Erie County

For the Period

January 1, 2020, to December 31, 2022

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October 2023



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. Steven Knapp, President  
Lake City Firefighter's Relief Association  
of the State of Pennsylvania  
Erie County

We have conducted a compliance audit of the Lake City Firefighter's Relief Association of the State of Pennsylvania (relief association) for the period January 1, 2020, to December 31, 2022. 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.

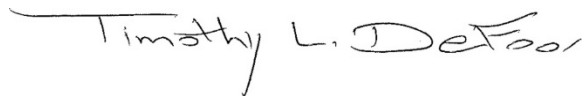
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief association funds complies with applicable state laws, contracts, bylaws, and administrative 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, 2020, to December 31, 2022:

- The relief association took appropriate corrective action to address the findings 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 finding listed below and discussed later in this report.

Finding – 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 response has 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 6, 2023

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## BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code<sup>1</sup>, and the Volunteer Firefighters' Relief Association Act<sup>2</sup> ("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 Law<sup>3</sup> (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.

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<sup>1</sup> 72 P.S. § 403 (as last amended by Act 44 of 2017).

<sup>2</sup> 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

<sup>3</sup> 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>2020</u>	<u>2021</u>	<u>2022</u>
Girard Township	Erie	\$ 8,717	\$ 7,762	\$ 9,270
Lake City Borough	Erie	\$13,360	\$11,946	\$14,282

Based on the relief association’s records, its total cash and investments as of December 31, 2022, were \$170,648, as illustrated below:

Cash	\$ 50,070
Fair Value of Investments	<u>120,578</u>
Total Cash and Investments	<u>\$ 170,648</u>

## BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$96,403, 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.<sup>4</sup> **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	\$	13,258
Relief benefits		<u>562</u>
Total Benefit Services	\$	<u>13,820</u>

#### Fire Services:

Equipment purchased	\$	61,182
Equipment maintenance		8,205
Training expenses		<u>11,552</u>
Total Fire Services	\$	<u>80,939</u>

#### Administrative Services:

Bond premiums	\$	300
Other administrative expenses		<u>374</u>
Total Administrative Services	\$	<u>674</u>

#### Other Expenditures:

Unauthorized expenditures *	\$	<u>970</u>
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Total Expenditures	\$	<u><u>96,403</u></u>
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\* These unauthorized expenditures were included in the prior audit report in a prior audit finding as post audit transactions and were reimbursed to the relief association in 2020.

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 City Fire Company

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

LAKE CITY FIREFIGHTER'S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Undocumented Expenditures

By receiving reimbursement of \$9,832 from the affiliated fire company for the undocumented expenditures that were made in the prior audit period.

- Unsecured Loan

By liquidating the fire company loan.

- Unauthorized Expenditures Due To Potential Misappropriation Of Funds

By receiving reimbursement of \$26,267 from the insurance bonding company for the unauthorized expenditures due to the potential misappropriation of funds made in the prior audit period.

- Unauthorized Expenditure

By receiving reimbursement of \$435 from the affiliated fire company for the unauthorized expenditure made in the prior audit period.



LAKE CITY FIREFIGHTER'S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA  
FINDING AND RECOMMENDATION

**Finding – Inadequate Signatory Authority For The Disbursement Of Funds**

Condition: During the current audit engagement, we identified 80 checks out of 81 checks, and 10 checks out of 10 checks in the post audit period, drawn from the relief association's checking account that did not contain the proper signatory authority. The 90 checks contained the signatures of two relief association officers (Relief Association President and Relief Association Vice-President or Relief Association Secretary); however, neither of the two signatures were that of the disbursing officer as required by the VFRA Act and the relief association's bylaws.

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 VI, Section 1 states:

The President shall preside at all meetings of the Association and Board of Control: countersign all checks drawn by the treasurer, appoint all committees, preserve order and decorum, and perform all duties pertaining to his office.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of the required appropriate 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: Relief association officials indicated the deficiency occurred due to short staffing and a small department and noted that the Treasurers' duties include checking the mail, writing checks, preparing deposits, and completing bank reconciliations, and they felt that it was better for segregation of duties that the President and Vice-President sign all checks.

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.

LAKE CITY FIREFIGHTER'S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

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 (disbursing officer), 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.

LAKE CITY FIREFIGHTER'S RELIEF ASSOCIATION OF THE STATE OF  
PENNSYLVANIA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

Lake City Firefighter's Relief Association of the State of Pennsylvania Governing Body:

**Mr. Steven Knapp**  
President

**Mr. Matthew Kremer**  
Vice President

**Ms. Alexa Mesaros**  
Secretary

**Mr. Brian Mesaros**  
Treasurer

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

**Ms. Lindy Platz**  
Secretary  
Girard Township

**Ms. Stacy L. Kibler**  
Secretary  
Lake City Borough

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).