

# COMPLIANCE AUDIT

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## The Emaus Firemen's Relief Association, Inc.

Lehigh County, Pennsylvania

For the Period

January 1, 2019, to December 31, 2021

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June 2023



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR  
AUDITOR GENERAL

Mr. Donald Riley, II, President  
The Emaus Firemen's Relief  
Association, Inc.  
Lehigh County

We have conducted a compliance audit of The Emaus Firemen's Relief Association, Inc. (relief association) for the period January 1, 2019, to December 31, 2021. 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 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.

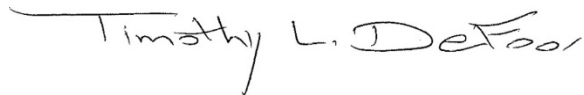
We were not able to obtain independent confirmations for the cash balance and a portion of the investment balance directly from the financial institutions. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2021, the relief association had a cash balance of \$72,810 and an investment balance with a fair value of \$553,181, we were not able to verify the cash balance and a portion of the investment balance.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2019, to December 31, 2021:

- 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 finding listed below and discussed later in this report.

Finding – 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 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.



Timothy L. DeFoor  
Auditor General  
June 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 association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Emmaus Borough*	Lehigh	\$26,313	\$62,000	\$55,110

\* As noted in the two prior audit reports, due to a decision made by Emmaus Borough regarding the outcome of a lawsuit with the Pennsylvania Labor Relations Board which resulted in a portion of the active volunteer firefighters being recognized as paid firefighters, the borough subsequently placed the state aid received for 2017 and 2018 into escrow and did not forward the funds totaling \$89,299 to the relief association until July of 2019 and did not forward the 2014 state aid funds totaling \$77,914 to the relief association until June of 2019. Consequently, the relief association did not receive their foreign fire tax allocations for the years 2014, 2017 and 2018 from this municipality in a timely manner, and those funds were thus not available to the relief association for general operating expenses or for investment purposes. Upon receipt of the state aid allocations, the relief association deposited the 2014 state aid funds on June 26, 2019, and deposited the 2017 and 2018 state aid funds on July 17, 2019 into a relief association account.

Based on the relief association’s records, its total cash and investments as of December 31, 2021, were \$625,991, as illustrated below:

Cash	\$ 72,810
Fair Value of Investments	<u>553,181</u>
Total Cash and Investments	<u>\$ 625,991</u>

## BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2021, were \$735,785, 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	\$	45,474
Death benefits		15,000
Tokens of sympathy and goodwill		1,987
Total Benefit Services	\$	<u>62,461</u>

#### Fire Services:

Equipment purchased	\$	15,420
Equipment maintenance		2,911
Total Fire Services	\$	<u>18,331</u>

#### Administrative Services:

Bond premiums	\$	1,484
Officer compensation		6,880
Other administrative expenses		2,586
Total Administrative Services	\$	<u>10,950</u>

Total Investments Purchased	\$	<u>558,821</u>
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#### Other Expenditures:

Office rent	\$	1,200
Repayment of state aid received in excess		46,379
Legal Expenditures		37,643
Total Other Expenditures	\$	<u>85,222</u>

Total Expenditures	\$	<u><u>735,785</u></u>
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<sup>4</sup> 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:

Emmaus Fire Department



THE EMAUS FIREMEN'S RELIEF ASSOCIATION, INC.  
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:

- Receipt Of State Aid In Excess Of Entitlement

By returning the excess state aid received for 2017 and 2018 to the Commonwealth.

THE EMAUS FIREMEN'S RELIEF ASSOCIATION, INC.  
FINDING AND RECOMMENDATION

**Finding – Failure To Segregate Relief Association Officers' Duties**

Condition: During the current audit, we detected that the same individual holds the position of both Secretary and Treasurer.

Criteria: Prudent business practice dictates that the duties of the 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 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: The relief association's secretary retired and was not replaced.

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 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 indicated they will take action to comply with the recommendation.

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

THE EMAUS FIREMEN'S RELIEF ASSOCIATION, INC.  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

The Emaus Firemen's Relief Association, Inc. Governing Body:

**Mr. Donald Riley, II**  
President

**Mr. Zachary Keiser**  
Vice President

**Ms. Victoria Schadler**  
Secretary/Treasurer

**Mr. David Ernst**  
Trustee

**Mr. Clifford Foulke**  
Trustee

**Mr. Jeff Kuhns**  
Trustee

**Mr. William Springer**  
Trustee

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

**Mr. Shane Pepe**  
Secretary  
Emmaus Borough

THE EMAUS FIREMEN'S RELIEF ASSOCIATION, INC.  
REPORT DISTRIBUTION LIST

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).