

COMPLIANCE AUDIT

Brookside Fireman's Relief Association

Erie County, Pennsylvania

For the Period

January 1, 2019 to December 31, 2021

September 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Guy Lombardozzi, President
Brookside Fireman's Relief Association
Erie County

We have conducted a compliance audit of the Brookside Fireman's Relief Association (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 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 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, 2019 to December 31, 2021:

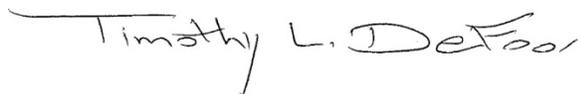
- The relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- Because of the significance of the matter described in Finding No. 2 below and discussed later in this report, the relief association did not, in all significant respects, comply 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, collectively as a whole. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Finding No. 2 – Inappropriate Ownership Of Rescue Vehicle

Finding No. 3 – 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 responses have been included in the report.



Timothy L. DeFoor
Auditor General
September 6, 2022

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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 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.

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> |
|----------------------|---------------|-------------|-------------|-------------|
| Harborcreek Township | Erie | \$30,261 | \$30,716 | \$27,225 |

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 as of December 31, 2021 was \$30,642, as illustrated below:

| | |
|------|------------------|
| Cash | <u>\$ 30,642</u> |
|------|------------------|

Based on the relief association’s records, its total expenditures for the period January 1, 2019 to December 31, 2021 were \$119,336, 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>\$ 32,444</u> |
| Fire Services: | |
| Equipment purchased | \$ 57,049 |
| Equipment maintenance | 5,104 |
| Training expenses | <u>18,655</u> |
| Total Fire Services | <u>\$ 80,808</u> |
| Administrative Services: | |
| Bond premiums | \$ 576 |
| Other administrative expenses * | <u>2,964</u> |
| Total Administrative Services | <u>\$ 3,540</u> |
| Other Expenditures: | |
| Undocumented expenditures ** | \$ 218 |
| Unauthorized expenditures | <u>2,326</u> |
| Total Other Expenditures | <u>\$ 2,544</u> |
| Total Expenditures | <u><u>\$ 119,336</u></u> |

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

BACKGROUND – (Continued)

* A majority of the other administrative expenses totaling \$2,700 were for accounting services.

** The relief association was unable to provide adequate supporting documentation evidencing the propriety of \$218 in expenditures made during calendar years 2020 and 2021. We disclosed this issue to relief association officials during the conduct of our audit, but we did not include a finding in this report due to the relatively low dollar amount.

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:

Brookside Volunteer Fire Company

BROOKSIDE FIREMAN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure To Segregate Relief Association Officers' Duties

By ensuring that there is segregation of duties between the offices of the secretary and president.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Unauthorized Expenditure

Although the relief association received reimbursement of \$9,600 from the affiliated fire company for the unauthorized expenditure that was made in the prior audit period, the relief association again expended funds in the current audit period that were not authorized by the VFRA Act as further disclosed in Finding No. 1 of this report.

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 recommendations and corrective actions noted in this audit report.

BROOKSIDE FIREMAN’S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by the VFRA Act:

| <u>Date</u> | <u>Check No.</u> | <u>Description</u> | <u>Amount</u> |
|-------------|------------------|---|-----------------|
| 03/27/2019 | 6201 | Training for a non-relief member | \$ 625 |
| 05/21/2019 | 6204 | Payment of Sales Tax | 2 |
| 02/22/2021 | 6257 | Maintenance on a non-relief owned apparatus | 831 |
| 05/07/2021 | 6260 | Salvage equipment | 868 |
| Total | | | <u>\$ 2,326</u> |

A similar condition was noted in our prior audit report.

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.
- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters’ training schools.
- (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.

Costs associated with the training of a non-relief member, payment of sales tax, maintenance on a non-relief owned apparatus, and the purchase of salvage equipment do not qualify as authorized volunteer firefighters’ relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

Cause: Relief association officials indicated that there was confusion on their part regarding unauthorized expenditures and that they were unaware that the aforementioned expenditures were not authorized by the VFRA Act.

BROOKSIDE FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As a result of these 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 \$2,326 for the unauthorized expenditures that occurred during the audit period and we again recommend 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 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 – Inappropriate Ownership Of Rescue Vehicle

Condition: During the prior audit period, on May 9, 2018, the relief association purchased a rescue vehicle in the amount of \$34,989, to carry personnel and safeguard equipment, however, the title to the vehicle was inappropriately issued in the name of the fire company, and as of the current period under review, the relief association had not obtained the title to the vehicle stipulating the relief association as an owner of the vehicle. On May 16, 2018, the affiliated fire company contributed \$3,499 to the relief association to be used towards the purchase of the rescue vehicle. As such, the formal written agreement between the relief association and the fire company for this apparatus states that the relief contributed \$31,490 towards the purchase and has 90% ownership in the rescue vehicle.

Criteria: Prudent business practice dictates that the relief association should maintain ownership rights for all equipment purchased by the relief association. As such, rescue vehicles purchased by the relief association are to be titled in the name of the relief association.

Cause: The relief association officials indicated that the fire company has partial ownership of the vehicle, but it did not provide any further reason why the relief association was not included as an owner on the vehicle title.

BROOKSIDE FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: As a result of the rescue vehicle being inappropriately titled solely in the name of the fire company, this relief association asset was not properly safeguarded. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the title to the rescue vehicle be titled be updated to include the name of the relief association. If such action is not taken, we recommend that the relief association be reimbursed \$31,490. 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: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

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

Condition: During the current audit engagement, we identified 17 checks out of 83 checks drawn on the relief association's checking account that did not contain the proper signatory authority. Fifteen of the checks contained the signature of only the treasurer and the remaining two 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. Additionally, in the post audit period, two additional checks did not contain the proper signatory authority. One check contained the signature of only the relief association president and the other check contained the signatures of two relief association officers, however, neither of the two signatures were that of the disbursing officers.

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.

BROOKSIDE FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

In addition, the relief association's bylaws at Article VI, Section 4(f) states:

The Treasurer shall: Sign all financial transactions of the Relief Association while securing a co-signature of the President or Vice President.

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 for why this occurred.

Effect: As a result of the relief association officer issuing checks with only one signature and/or without the signature of the disbursing officer, 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.

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the Treasurer/dispersing officer, are included on all relief association negotiable instruments as defined by the VFRA Act. 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.

BROOKSIDE FIREMAN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action may not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

BROOKSIDE FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Charles J. McGarvey, Sr.
State Fire Commissioner

Brookside Fireman's Relief Association Governing Body:

Mr. Guy Lombardozi
President

Mr. Ralph Brown
Vice President

Ms. Lauren Drew
Secretary

Mr. Michael Harrington
Treasurer

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

Mr. Dean S. Pepicello
Secretary
Harborcreek 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.