

COMPLIANCE AUDIT

Harborcreek Firemans Relief Association

Erie County, Pennsylvania

For the Period

January 1, 2019 to December 31, 2021

October 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Charles Ramsey, President
Harborcreek Firemans Relief Association
Erie County

We have conducted a compliance audit of the Harborcreek Firemans 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.

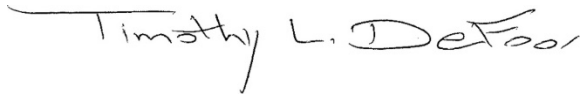
The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective 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 objective. 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, 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 Relief Association Bylaws And 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 name.

Timothy L. DeFoor
Auditor General
August 3, 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.

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>2019</u>	<u>2020</u>	<u>2021</u>
Harborcreek Township	Erie	\$30,261	\$30,716	\$27,225

Based on the relief association’s records, its total cash and investments as of December 31, 2021 were \$113,873, as illustrated below:

Cash	<u>\$ 113,873</u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2019 to December 31, 2021 were \$154,057, 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>\$ 15,639</u>
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Fire Services:

Equipment purchased	\$ 119,802
Equipment maintenance	7,818
Training expenses	<u>10,598</u>
Total Fire Services	<u>\$ 132,218</u>

Administrative Services:

Bond premiums	<u>\$ 200</u>
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Total Expenditures	<u><u>\$ 154,057</u></u>
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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:

Harborcreek Fire Department

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

HARBORCREEK FIREMANS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

**Finding – Inadequate Relief Association Bylaws And Inadequate Signatory Authority For
The Disbursement Of Funds**

Condition: The existing bylaws of the relief association do not contain all of the provisions required by Section 7415(c) of the VFRA Act. Specifically, the existing bylaws of the relief association do not appear to contain the specific requirement that one of the two signatures included on all negotiable instruments is that of the disbursing officer. In addition, during the current audit engagement, we identified all 42 checks drawn from the relief association's checking account, as well as all 5 checks in the subsequent period as of the last day of our audit fieldwork, 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 6 states, in part:

The treasurer shall receive and have the custody of all monies and financial matters in the name of the Harborcreek Firemen's Relief Association. He shall keep a true and regular account of receipts, disbursements and other financial matters in a book provided by the association. He shall disburse funds only on a written order signed by the President and Secretary.

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 indicated that they were not aware that the disbursing officer's signature was required as one of the two officer signatures needed for the disbursement of funds.

HARBORCREEK FIREMANS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

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 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. We also recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act and properly authorize the operating procedures of the relief association. 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.

HARBORCREEK FIREMANS' 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

Harborcreek Firemans Relief Association Governing Body:

Mr. Charles Ramsey
President

Mr. Andrew Fuller
Vice President

Ms. Nicole Layden
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.