

COMPLIANCE AUDIT

The Lackawaxen Township Volunteer
Firemen's Relief Association of
Lackawaxen Township, Pike County,
Pennsylvania
For the Period
January 1, 2018 to December 31, 2020

November 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. William Thompson, President
The Lackawaxen Township Volunteer Firemen's
Relief Association of Lackawaxen Township,
Pike County, Pennsylvania

We have conducted a compliance audit of The Lackawaxen Township Volunteer Firemen's Relief Association of Lackawaxen Township, Pike County, Pennsylvania (relief association) for the period January 1, 2018 to December 31, 2020. 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, 35 Pa.C.S. § 7411 *et seq.* ("VFRA Act"), as most recently amended by Act 91 of 2020.

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.

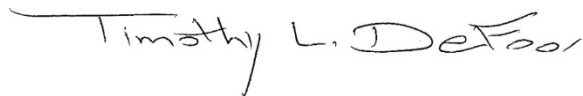
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures,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

We were not able to obtain an independent confirmation of the cash balance directly from the financial institution. Therefore, while the relief association provided copies of bank statements that indicated that, as of December 31, 2020, the relief association had a cash balance of \$55,929, we were not able to verify the cash 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, 2018 to December 31, 2020, 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.

October 22, 2021

Timothy L. DeFoor
Auditor General

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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>2018</u>	<u>2019</u>	<u>2020</u>
Lackawaxen Township	Pike	\$35,962	\$38,174	\$38,161

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, 2020 was \$55,929, as illustrated below:

Cash	<u>\$ 55,929</u>
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Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$161,718, 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	\$ 19,591
Death benefits	3,500
Tokens of sympathy and goodwill	79
Total Benefit Services	<u>\$ 23,170</u>
Fire Services:	
Equipment purchased	\$ 99,456
Equipment maintenance	3,322
Total Fire Services	<u>\$ 102,778</u>
Administrative Services:	
Officer compensation	\$ 975
Other administrative expenses*	4,112
Bond premiums	408
Total Administrative Services	<u>\$ 5,495</u>
Other Expenditures:	
Payments on loan	<u>\$ 30,275</u>
Total Expenditures	<u><u>\$ 161,718</u></u>

* Portions of the other administrative expenditures represent monthly electric bills for relief association owned and operated equipment totaling \$2,231 and reimbursement charges for food paid for by the affiliated fire company in the amount of \$1,500.

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 organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Central Volunteer Fire Department

Forest Volunteer Fire Department

Lackawaxen Township Volunteer Fire Department

THE LACKAWAXEN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
LACKAWAXEN TOWNSHIP, PIKE COUNTY, PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified four checks out of 119 checks drawn on the relief association's checking account that only contained the signature of one officer, even though two signatures are required by the VFRA Act and the relief association bylaws. Issuing checks with the signature of only one officer negates the relief association's internal control over the disbursement process.

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 X, Section 1 states, in part:

The signatures of the association President and Treasurer shall be required for the issuance of all relief association checks, all withdrawals from association accounts, the redemption of any association investments and on all other negotiable instrument issued by the 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.

Cause: Relief association officials stated a lack of oversight for the issuance of these checks without the two required signatures.

Effect: As a result of the relief association officer issuing checks with only one signature, 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.

THE LACKAWAXEN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
LACKAWAXEN TOWNSHIP, PIKE COUNTY, 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 officers, one of whom shall be the treasurer, 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.

THE LACKAWAXEN TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
LACKAWAXEN TOWNSHIP, PIKE COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Lackawaxen Township Volunteer Firemen's Relief Association of Lackawaxen Township,
Pike County, Pennsylvania Governing Body:

Mr. William Thompson
President

Mr. Fred Suljic
Secretary

Ms. Frances James
Treasurer

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

Ms. Denise Steuhl
Secretary
Lackawaxen 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.