

COMPLIANCE AUDIT

Lake City Firefighter's Relief Association of the State of Pennsylvania Erie County For the Period January 1, 2015 to December 31, 2017

July 2018



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Gregory M. Summerson, 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) pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2015 to December 31, 2017.

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 required to be and was not 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, 2015 to December 31, 2017:

- 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.
- 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 findings listed below and discussed later in this report.

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

Finding No. 2 – Unsecured Loan

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

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. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

July 17, 2018



EUGENE A. DEPASQUALE
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 Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, 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, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (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.

Act 118 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, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, 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.

BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Girard Township	Erie	\$ 9,331	\$ 9,292	\$ 8,722
Lake City Borough	Erie	\$14,673	\$14,605	\$13,364

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 Department

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

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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:

- Undocumented Expenditures

Although the relief association received reimbursement of \$1,819 from the affiliated fire company for the undocumented expenditures that were made in the prior audit period, the relief association again failed to provide adequate documentation to support all expenditures in the current audit period 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 association management should strive to implement the recommendations and corrective actions noted in this audit report.

LAKE CITY FIREFIGHTERS' RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

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

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

Date	Check No.	Payee Description	Amount
01/05/15	Debit	Training vender	\$ 13
01/12/15	Debit	Training vender	67
01/12/15	Debit	Training vender	94
01/12/15	Debit	Training vender	19
01/12/15	Debit	Training vender	196
01/13/15	1030	Training vender	500
05/11/15	Debit	Equipment vender	310
05/04/15	1043	Training vender	300
07/09/15	1051	Maintenance vender	102
07/09/15	Debit	Postal vender	49
07/20/15	Debit	Equipment vender	232
08/24/15	Debit	Training vender	25
08/24/15	Debit	Training vender	8
08/24/15	Debit	Training vender	16
08/24/15	Debit	Training vender	18
11/25/15	Debit	Equipment vender	109
05/05/16	1082	Training vender	300
05/09/16	Debit	Training vender	31
06/29/16	Debit	Benefit vender	149
08/17/16	Debit	Benefit vender	260
09/21/16	Debit	Training vender	24
10/20/16	1102	Training vender	168
01/23/17	1113	Maintenance vender	1,401
02/15/17	Debit	Postal vender	2
04/18/17	Debit	Training vender	108
10/28/17	Debit	Training vender	20
Total			<u>\$ 4,521</u>

A similar condition was noted in our prior audit report.

LAKE CITY FIREFIGHTERS' RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Without adequate supporting documentation, such as invoices and/or itemized receipts, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$4,521 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all 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.

LAKE CITY FIREFIGHTERS' RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unsecured Loan

Condition: On October 9, 2015, the relief association made an unsecured loan to the affiliated fire company in the amount of \$48,000. As of the date of this report, the relief association has received two payments totaling \$21,114.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) requires that loans be:

. . . (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

Cause: Relief association officials indicated that they were unaware that the loan to the fire company must be secured to ensure compliance with Act 118 provisions.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk.

Recommendation: We recommend that the relief association officials and the fire company amend the written loan agreement to provide adequate security for the relief association's investment as required by Act 118 at 35 Pa.C.S. § 7416(c)(3). If such action is not taken, we recommend that the loan be immediately liquidated. 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, as a result of our audit, a new agreement was provided.

Auditor's Conclusion: We reviewed the agreement; however, all required signatures were not present and the agreement did not provide the appropriate security for the loan. Full compliance will be subject to verification through our next audit.

LAKE CITY FIREFIGHTER'S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 34,327
Fair Value of Investments	<u>108,013</u>
Total Cash and Investments	<u><u>\$ 142,340</u></u>

LAKE CITY FIREFIGHTER'S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 19,382
Relief benefits	395
Tokens of sympathy and goodwill	365
Total Benefit Services	<u>\$ 20,142</u>
Fire Services:	
Equipment purchased	\$ 59,454
Equipment maintenance	15,697
Training expenses	10,873
Total Fire Services	<u>\$ 86,024</u>
Administrative Services:	
Other administrative expenses	\$ 102
Bond premiums	300
Total Administrative Services	<u>\$ 402</u>
Total Investments Purchased	<u>\$ 58,783</u>
Other Expenditures:	
Undocumented expenditures	<u>\$ 4,521</u>
Total Expenditures	<u><u>\$ 169,872</u></u>

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

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

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

Mr. Gregory M. Summerson
President

Mr. Steven Knapp
Vice President

Ms. Lindsay Weidler
Secretary

Mr. Phillip Blose
Treasurer

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

Ms. Lisa Vallimont
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. 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.