

COMPLIANCE AUDIT

Laurel Run Fireman's Relief
Association, Laurel Run Borough,
Luzerne County, Laurel Run, PA 18706
Pennsylvania
For the Period
January 1, 2018 to December 31, 2019

March 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

TIMOTHY L. DEFOOR
AUDITOR GENERAL

Ms. Elizabeth McGlynn, President
Laurel Run Fireman's Relief Association,
Laurel Run Borough, Luzerne County,
Laurel Run, PA 18706

We have conducted a compliance audit of the Laurel Run Fireman's Relief Association, Laurel Run Borough, Luzerne County, Laurel Run, PA 18706 (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, 2018 to December 31, 2019.

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.

Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2019:

- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this report.
- Because of the significance of the matters described in Finding Nos. 1 and 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 –
Inappropriate Ownership Of Rescue Vehicle

Finding No. 2 – Improper Transfers Of Funds And Failure To Adhere to Relief
Association Bylaws

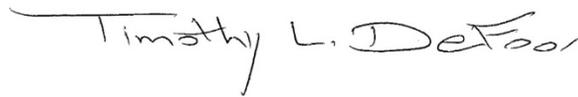
Finding No. 3 – Failure To Obtain A Pennsylvania Sales Tax Exemption
Number

Finding No. 4 – Failure To Maintain Minutes Of Meetings

Finding No. 5 – Failure To Maintain A Complete And Accurate Equipment
Roster

The five findings contained in this report cite conditions that existed in the operation of the relief association during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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.

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.

March 15, 2021

Timothy L. DeFoor
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	4
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inappropriate Ownership Of Rescue Vehicle.....	5
Finding No. 2 – Improper Transfers Of Funds And Failure To Adhere To Relief Association Bylaws.....	6
Finding No. 3 – Failure To Obtain A Pennsylvania Sales Tax Exemption Number	8
Finding No. 4 – Failure To Maintain Minutes Of Meetings	9
Finding No. 5 – Failure To Maintain A Complete And Accurate Equipment Roster.....	10
Potential Withhold of State Aid.....	12
Report Distribution List	13

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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>
Laurel Run Borough	Luzerne	\$2,183	\$2,484

Based on the relief association's records, its total cash as of December 31, 2019 was \$3,927, as illustrated below:

Cash	<u>\$ 3,927</u>
------	-----------------

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2019 were \$11,840, 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.¹ **The scope of the Department's audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Fire Services:

Equipment purchased*	<u>\$ 4,002</u>
----------------------	-----------------

Administrative Services:

Other administrative expenses	\$ 76
Bond premiums*	<u>315</u>
Total Administrative Services	<u>\$ 391</u>

Other Expenditures:

Improper transfers – See Finding No. 2	<u>\$ 7,447</u>
--	-----------------

Total Expenditures	<u>\$ 11,840</u>
--------------------	------------------

* The above category items with an asterisk include improper electronic fund transfers that were made by the relief association, totaling \$2,903 (\$2,588 in equipment purchases and a \$315 bond payment per invoices provided by the relief association) to its affiliated fire company. In all, the relief association made \$10,350 of improper electronic fund transfers to its affiliated fire company, which included insufficiently documented transfers of \$5,000, \$447, and \$2,000. Refer to Finding No. 2 for further information.

¹ 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:

Laurel Run Volunteer Fire Department

LAUREL RUN FIREMAN'S RELIEF ASSOCIATION, LAUREL RUN BOROUGH,
LUZERNE COUNTY, LAUREL RUN, PA 18706
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Inappropriate Ownership Of Rescue Vehicle

We are concerned by the relief association's failure to correct this previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

LAUREL RUN FIREMAN'S RELIEF ASSOCIATION, LAUREL RUN BOROUGH,
LUZERNE COUNTY, LAUREL RUN, PA 18706
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inappropriate Ownership Of Rescue Vehicle

Condition: On March 4, 2015, the relief association purchased a rescue vehicle, in the amount of \$1,000, to carry personnel and safeguard equipment; however, the relief association failed to provide the title to the vehicle and indicated the vehicle's title was in the name of the affiliated fire company.

A similar condition was noted in our prior audit report.

Criteria: Prudent business practice dictates that the relief association should maintain sole ownership of 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 did not provide a reason for why they haven't obtained the proper title for this vehicle despite being notified of this condition during our prior audit.

Effect: As a result of the rescue vehicle being inappropriately titled in the name of the affiliated 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 again recommend that the rescue vehicle be titled in the name of the relief association. If such action is not taken, we recommend that the relief association be reimbursed \$1,000. 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.

LAUREL RUN FIREMAN’S RELIEF ASSOCIATION, LAUREL RUN BOROUGH,
 LUZERNE COUNTY, LAUREL RUN, PA 18706
 FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Improper Transfers Of Funds And Failure To Adhere To Relief Association Bylaws

Condition: The relief association improperly made electronic transfers of funds totaling \$10,350 from its checking account on six occasions during the audit period to the affiliated fire company’s checking account. Specifically, the improper transfers are as follows:

Transaction Date	Payment Method	Payee Description	Amount
02/24/2018	EFT	Transfer to affiliated fire company	\$ 5,000
02/24/2018	EFT	Transfer to affiliated fire company	447
08/24/2018	EFT	Transfer Fire Store Gear* (gloves, brush pants, harnesses, hoses)	1,103
10/27/2018	EFT	Bond payment* (surety bond)	315
04/04/2019	EFT	Self-contained breathing apparatus bottles* (replacement air cylinders)	1,485
09/20/2019	EFT	Transfer to affiliated fire company	<u>2,000</u>
Total			<u><u>\$ 10,350</u></u>

EFT = Electronic Transfer of Funds

* = Invoice provided

In addition, the relief association did not abide by its bylaws, which require that the treasurer position be filled and that the treasurer sign all orders along with the president. The treasurer position has been vacant since August of 2018, and relief association has been transferring monies to the fire company to pay bills.

The relief association provided supporting documentation for \$2,903 of these expenditures. While these purchases would have been authorized by Act 118, relief association funds should not be commingled with funds from the affiliated fire company. The relief association also received reimbursement of \$5,000 for a portion of the improper transfers.

Criteria: Relief association funds should not be transferred to the accounts of any other organization without proper justification. Further, in order to maintain effective control of relief association assets, relief association funds should not be commingled with any other organization’s funds.

LAUREL RUN FIREMAN'S RELIEF ASSOCIATION, LAUREL RUN BOROUGH,
LUZERNE COUNTY, LAUREL RUN, PA 18706
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

The relief association's bylaws at Article 5 states, in part:

The officers of the Association shall consist of a President, Vice President, Secretary and Treasurer.

Treasurer: Shall have charge of all monies belonging to the company, pay all orders when signed by the president, and when approved by the body. Shall keep a book containing a correct account of all monies received and debts paid, subject to inspection by a majority of the members.

Furthermore, prudent business practice dictates that the relief association should adhere to all provisions stipulated in the relief association's bylaws to ensure that the relief association conducts its affairs with proper authorization.

Cause: Relief officials indicated that the relief association was operating without a treasurer since August 2018, and the relief association's secretary was conducting some duties in place of a treasurer. Because the relief association bank authorization signatory card of authorized check-signers was outdated, the secretary was not authorized to write checks and decided to transfer money to the affiliated fire company rather than issue relief association checks. Additionally, prior to relinquishing the position of treasurer, the former relief association treasurer appeared to stop performing the duties assigned in the relief association bylaws to the position of treasurer. We base this on two transfers noted in the above table that were made prior to August of 2018, when according to relief officials, the relief association began operating without a treasurer.

Effect: The transfers of funds to the affiliated fire company's account reduces the relief association's control over cash disbursements. As a result of the relief association not following the mandatory provisions stipulated in the bylaws, the relief association may have conducted its affairs without proper authorization. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association refrain from transferring money to the affiliated fire company account in the future and that the relief association be reimbursed \$2,447 for the remaining transfers of funds. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association expenditures. Furthermore, the relief association should elect a person to fill the position of relief association treasurer and relief association officials should contact the relief association's bank and have the bank signatory authorizations cards updated to reflect the relief association's officers who are authorized to sign checks. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

LAUREL RUN FIREMAN'S RELIEF ASSOCIATION, LAUREL RUN BOROUGH,
LUZERNE COUNTY, LAUREL RUN, PA 18706
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 – Failure To Obtain A Pennsylvania Sales Tax Exemption Number

Condition: Although notified of this condition as a verbal observation during our prior audit, the relief association failed to obtain a Pennsylvania sales tax exemption number. The relief association is currently using the affiliated fire service organization's sales tax exemption number, although the fire service organization and the relief association are separate legal entities.

Criteria: Section 7415(e) of Act 118 states:

A volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

Cause: Relief officials did not provide a reason for why this occurred despite being notified of this condition as a verbal observation during our prior audit.

Effect: As a result of the relief association's failure to obtain a sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on its purchases, which ultimately reduces the funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We again recommend that the relief association officials immediately obtain a state sales tax exemption number from the Department of Revenue and furnish this exemption number to all vendors from whom the relief association purchases equipment. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

LAUREL RUN FIREMAN'S RELIEF ASSOCIATION, LAUREL RUN BOROUGH,
LUZERNE COUNTY, LAUREL RUN, PA 18706
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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.

Finding No. 4 – Failure To Maintain Minutes Of Meetings

Condition: The relief association did not maintain minutes of meetings as required by Act 118 and the relief association's bylaws.

Criteria: Section 7415(a) of Act 118 states, in part, that the relief association:

... must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, the relief association's bylaws at Article 5 states, in part:

Secretary: Shall attend all meetings of the association and keep a record of the meeting minutes... The secretary is responsible for providing representatives of the department of the Auditor General with up to date copy of the bylaws and the meeting minutes for their auditing duties.

Cause: The relief association secretary indicated that the minutes were kept in a digital format on a computer that had subsequently crashed. The computer file information has not been recovered.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend that the relief association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record of all financial-related business conducted by the relief association. In addition, the relief association should ensure appropriate computer security software is maintained on computers storing relief association information, and a proper back-up system/mechanism should be in place to ensure relief association records can be preserved. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

LAUREL RUN FIREMAN'S RELIEF ASSOCIATION, LAUREL RUN BOROUGH,
LUZERNE COUNTY, LAUREL RUN, PA 18706
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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.

Finding No. 5 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit period, this listing was incomplete and did not accurately identify all of the equipment owned by the relief association. The relief association purchased \$4,002 of equipment during the current audit period, but the equipment for \$1,103 of those purchases was not properly accounted for on the relief association's equipment roster. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

Cause: The relief association officials did not provide a reason for why this occurred.

LAUREL RUN FIREMAN'S RELIEF ASSOCIATION, LAUREL RUN BOROUGH,
LUZERNE COUNTY, LAUREL RUN, PA 18706
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. 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.

LAUREL RUN FIREMAN'S RELIEF ASSOCIATION, LAUREL RUN BOROUGH,
LUZERNE COUNTY, LAUREL RUN, PA 18706
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. Furthermore, 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.

LAUREL RUN FIREMAN'S RELIEF ASSOCIATION, LAUREL RUN BOROUGH,
LUZERNE COUNTY, LAUREL RUN, PA 18706
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Laurel Run Fireman's Relief Association, Laurel Run Borough, Luzerne County, Laurel Run,
PA 18706 Governing Body:

Ms. Elizabeth McGlynn
President

Ms. Mackenzie Shovlin
Vice President

Ms. Jolene Tavaglione
Secretary

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

Ms. Cathy Pockevich
Secretary
Laurel Run 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.