

COMPLIANCE AUDIT

Laurel Run Fireman's Relief Association,
Laurel Run Borough, Luzerne County,
Laurel Run, PA 18706
Pennsylvania
For the Period
January 1, 2020, to December 31, 2022

October 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Ms. Mackenzie Shovlin, 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) for the period January 1, 2020, to December 31, 2022. 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 association 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, 2020, to December 31, 2022:

- The relief association took appropriate corrective action to address two of the five findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the three remaining findings 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 – Improper Transfers Of Funds And Failure To Adhere To Relief Association Bylaws

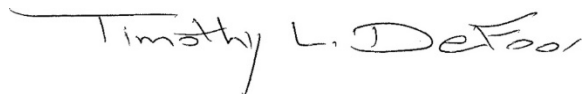
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings

Finding No. 4 – Failure To Maintain Surety (Fidelity) Bond Coverage

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.



Timothy L. DeFoor
Auditor General
October 12, 2023

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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 relief association officers therefore have a responsibility to the public to conduct the relief association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all relief association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the relief 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>2020</u>	<u>2021</u>	<u>2022</u>
Laurel Run Borough	Luzerne	\$2,504	\$2,241	\$2,930

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, 2022, was \$10,397, as illustrated below:

Cash	<u>\$ 10,397</u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$5,215, 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:

Fire Services:

Equipment purchased	<u>\$ 3,237</u>
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Administrative Services:

Other administrative expenses	<u>\$ 73</u>
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Other Expenditures:

Unauthorized expenditures	\$ 1,342
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Miscellaneous *	<u>563</u>
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Total Other Expenditures	<u>\$ 1,905</u>
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Total Expenditures	<u>\$ 5,215</u>
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*The miscellaneous expenditures were an erroneous transfer from the affiliated fire company to the relief association account on November 5, 2020. As soon as the relief association discovered the error, the affiliated fire company was reimbursed \$563 on November 5, 2020.

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 Borough Volunteer Fire Department

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

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

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Inappropriate Ownership Of Rescue Vehicle
By obtaining reimbursement of \$1,000 from the affiliated fire company for the proportional ownership interest in the jointly purchased vehicle.
- Failure To Maintain A Complete And Accurate Equipment Roster
By maintaining a cumulative inventory roster of all relief association owned equipment and performing and documenting an annual physical inventory of all relief association owned equipment.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with three of the five prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Improper Transfers Of Funds And Failure To Adhere To Relief Association Bylaws
Although the relief association received reimbursement for the remaining \$2,447 transfers of funds made during the prior audit, the relief association improperly made electronic transfers of funds to the affiliated fire company during the current audit period as further disclosed in Finding No. 1 of this report.
- Failure To Obtain A Pennsylvania Sales Tax Exemption Number
Although the prior audit report indicated that the relief association failed to obtain its own Pennsylvania sales tax exemption number, the relief association failed to maintain one as further disclosed in Finding No. 2 of this report.
- Failure To Maintain Minutes Of Meetings
Although the relief association provided meeting minutes during the current audit period, the relief association failed to maintain detailed minutes of meetings as required by the VFRA Act as further disclosed in Finding No. 3 of this report.

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

We are concerned by the relief association's failure to correct those previously reported audit findings. The relief association management should strive to implement the recommendations and corrective actions 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 – Improper Transfers
 Of Funds And Failure To Adhere To Relief Association Bylaws**

Condition: Although the relief association received reimbursement for the remaining transfers of funds made during the prior audit, the relief association improperly made electronic transfers of funds totaling \$4,579 from its checking account on four 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
05/23/2020	EFT	Transfer to affiliated fire company	\$ 442
07/28/2020	EFT	Transfer to affiliated fire company	500
10/03/2020	EFT	Transfer to affiliated fire company	400
08/31/2021	EFT	Transfer to affiliated fire company (radios) *	3,237
Total			<u>\$ 4,579</u>

EFT = Electronic Transfer of Funds

*= Invoice Provided

In addition, the relief association did not abide by its bylaws, which require that the treasurer sign all orders along with the president. The relief association has been transferring monies to the fire company to pay bills.

The relief association provided supporting documentation for \$3,237 of these expenditures. While this purchase would have been authorized by the VFRA Act, the relief association funds should not be commingled with funds from the affiliated fire company.

A similar condition was noted in our prior audit report.

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. 1 – (Continued)

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

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 association officials stated that due to little business being conducted within the relief association that it was easier to transfer the monies to the fire company to pay the bills.

Effect: The transfers of funds to the affiliated fire company's account reduces the relief association's control over cash disbursements, increasing the risk of misappropriation of the funds. 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.

Recommendation: We again 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 \$1,342 for the remaining transfers of funds. 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.

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

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain
A Pennsylvania Sales Tax Exemption Number**

Condition: The relief association failed to maintain a Pennsylvania sales tax exemption number. Although the relief association did have its own sales tax exemption number, it expired on March 31, 1990, and is no longer valid.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(e) of the VFRA Act 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 association officials indicated that they were unaware that its sales tax exemption number from the Pennsylvania Department of Revenue had expired.

Effect: As a result of the relief association's continued failure to maintain a sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on their 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 reapply for a new 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.

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.

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

**Finding No. 3 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes
Of Meetings**

Condition: Although the relief association provided meeting minutes during the current audit period, the relief association failed to maintain detailed minutes of meetings as required by the VFRA Act. Specifically, the relief association's meeting minutes did not address all of the financial-related transactions that occurred during the audit period, the minutes did not address or approve the transfer of funds to the affiliated fire company, and the recording officer failed to sign and date the relief association minutes.

Criteria: Section 7415(a) of the VFRA Act 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.

Cause: Relief association officials indicated that they were unaware that maintaining detailed minutes of meetings was required by the VFRA Act. In addition, the relief association officials did not provide a reason why financial transactions were not addressed within the meeting minutes, why the Secretary of the Relief Association did not sign and date the meeting minutes, or why the transfers of funds were not addressed/approved.

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

Recommendation: We again recommend that the relief association officials maintain detailed minutes of meetings as required by the VFRA Act, evidencing the discussion and approval of all financial-related business conducted by the relief association. The minutes should include an adequate record of all financial-related business conducted by the relief association. We also recommend that the relief association officials ensure that all meeting minutes are signed and dated by the Secretary of the Relief Association to ensure the validity of the meeting minutes. 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.

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

Finding No. 4 – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by the VFRA Act. The relief association's Surety (Fidelity) bond coverage expired on October 15, 2021. As of December 31, 2022, the relief association's cash assets totaled \$10,397.

Criteria: Section 7415(c)(4) of the VFRA Act states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: Relief association officials indicated that they were unaware of the VFRA Act provision requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer and did not provide a reason why this occurred.

Effect: As a result of the authorized disbursing officer of the relief association not being bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials obtain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required 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.

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 Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

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

Ms. Mackenzie Shovlin
President

Ms. Meghan Flynn
Vice President

Ms. Jolene Tavaglione
Secretary

Mr. Stephen Kelly
Treasurer

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

Ms. Cathy Pockevich
Manager/Chief Administrator
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.