

# COMPLIANCE AUDIT

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## The North East Volunteer Firemen's Relief Association

Erie County, Pennsylvania

For the Period

January 1, 2017 to December 31, 2019

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March 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR  
AUDITOR GENERAL

Mr. Michael Wilkinson, President  
The North East Volunteer Firemen's  
Relief Association  
Erie County

We have conducted a compliance audit of The North East Volunteer Firemen's Relief Association (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, 2017 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.

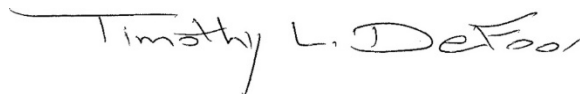
We were not able to obtain an independent confirmation of a portion of the cash balance and the investment balance directly from the financial institution. Therefore, while the relief association provided copies of the investment statements that indicated that, as of December 31, 2019, the relief association had a cash balance of \$100,966 and an investment balance with a fair value of \$331,249, we were not able to verify a portion of the cash balance and the investment 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, 2017 to December 31, 2019:

- The relief association took appropriate corrective action to address the finding contained in our prior audit 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 finding listed below and discussed later in this report.

Finding – Failure To Define Discretionary Benefits

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.



Timothy L. DeFoor  
Auditor General

March 2, 2021

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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.

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

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
North East Borough	Erie	\$19,307	\$17,588	\$19,059
North East Township	Erie	\$37,456	\$34,218	\$37,401

## BACKGROUND – (Continued)

Based on the relief association's records, its total cash and investments as of December 31, 2019 were \$432,215, as illustrated below:

Cash	\$ 100,966
Fair Value of Investments	<u>331,249</u>
Total Cash and Investments	<u>\$ 432,215</u>

Based on the relief association's records, its total expenditures for the period January 1, 2017 to December 31, 2019 were \$199,440, 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.<sup>1</sup> **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	\$ 38,908
Relief benefits	<u>1,188</u>
Total Benefit Services	<u>\$ 40,096</u>
Fire Services:	
Equipment purchased	\$ 122,011
Equipment maintenance	10,474
Training expenses	14,863
Fire prevention materials	<u>5,029</u>
Total Fire Services	<u>\$ 152,377</u>
Administrative Services:	
Officer Compensation	\$ 5,800
Other administrative expenses	816
Bond premiums	<u>351</u>
Total Administrative Services	<u>\$ 6,967</u>
Total Expenditures	<u>\$ 199,440</u>

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<sup>1</sup> 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:

Crescent Hose Company

Fuller Hose Company

THE NORTH EAST VOLUNTEER FIREMEN'S ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Unauthorized Expenditures

By receiving reimbursement of \$2,555 from the affiliated fire companies for the unauthorized expenditures made in the prior audit period.



THE NORTH EAST VOLUNTEER FIREMEN'S ASSOCIATION  
FINDING AND RECOMMENDATION

**Finding – Failure To Define Discretionary Benefits**

Condition: The relief association did not formally define discretionary benefits for officer's compensation (stipend/salaries) that were being offered to its members. During the current audit period, the relief association paid \$5,800 in discretionary benefits. Although these expenditures were authorized by Act 118, the types, amounts, and criteria to be met before receiving the benefits were not described in a formal policy approved by the relief association membership.

Criteria: Section 7413 of Act 118 states that funds shall be available:

- (3) For payment, either by insurance or by operation of a beneficial fund, of a sum certain to designated beneficiaries of a participating member following the death of a member for any cause and to establish criteria which members must meet in order to qualify as participants in a death benefit fund. (Emphasis added.)
  
- (5) Financial assistance to volunteer firefighters who, after having actively participated in the fire service for a specified minimum term, are no longer physically able to continue participation and are in need of financial assistance. (Emphasis added.)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, disability benefits, officer compensation, or any other type of discretionary benefit provided by Act 118, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal relief association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well as the criteria to be met in order to receive the benefits.

Cause: Relief association officials indicated that because the expenditures were approved by the membership at relief association meetings and the approval was documented in the minutes, they believed this was sufficient approval to provide this type of discretionary benefit expenditure.

Effect: The relief association's failure to formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the relief association.

THE NORTH EAST VOLUNTEER FIREMEN'S ASSOCIATION  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that the relief association officials formally define and document the criteria of the discretionary benefits being offered to its membership. The formal approval of benefits and related criteria should be documented in the bylaws and/or a policy statement, and should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the criteria to be met before receiving the benefit. Furthermore, all approved discretionary benefits should be in accordance with provisions of Act 118. 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 NORTH EAST VOLUNTEER FIREMEN'S ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

The North East Volunteer Firemen's Relief Association Governing Body:

**Mr. Michael D. Wilkinson**  
President

**Mr. Thomas W. Brown**  
Vice President

**Mr. Bryan Stow**  
Secretary

**Mr. Steve Wilkinson**  
Treasurer

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

**Mr. Patrick J. Gehrlein**  
Secretary  
North East Borough

**Ms. Erica L. Carlstrom**  
Secretary  
North East Township

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).