

COMPLIANCE AUDIT

West Lake Firemen's Relief Association

Erie 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. Dom Quadri, President
West Lake Firemen's
Relief Association
Erie County

We have conducted a compliance audit of the West Lake Firemen's Relief Association (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.

Based on our audit procedures, we conclude that, 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 findings listed below and discussed later in this report.

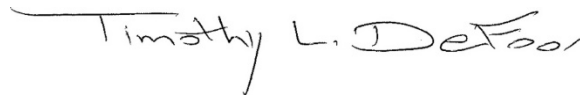
Finding No. 1 – Unauthorized Expenditures

Finding No. 2 – Undocumented Expenditures

We have also issued the observation below as detailed in the Observation section of this report.

Observation – Petty Cash Account

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 horizontal line extending to the left of the first name.

October 26, 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>
Millcreek Township	Erie	\$72,105	\$77,519	\$77,714

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 were \$79,812, as illustrated below:

Cash	<u>\$ 79,812</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 \$228,873, 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	\$ 16,424
Relief benefits	18,972
Total Benefit Services	<u>\$ 35,396</u>

Fire Services:

Equipment purchased	\$ 131,076
Equipment maintenance	28,657
Training expenses	14,395
Fire prevention materials	3,913
Total Fire Services	<u>\$ 178,041</u>

Administrative Services:

Officer compensation	\$ 1,797
Other administrative expenses	2,652
Bond premiums	300
Total Administrative Services	<u>\$ 4,749</u>

Other Expenditures:

Undocumented expenditures	\$ 1,063
Unauthorized expenditures	9,394
Sales tax*	230
Total Other Expenditures	<u>\$ 10,687</u>

Total Expenditures	<u><u>\$ 228,873</u></u>
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⁴ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

BACKGROUND – (Continued)

* During the current audit period, the relief association made insignificant disbursements of sales tax totaling \$230 which were not authorized by the VFRA Act. We disclosed this issue to relief association officials on September 30, 2021 and as a result of our audit, the affiliated fire company partially reimbursed the relief association \$168 for the unauthorized expenditures on October 5, 2021. As such, the relief association still needs to be reimbursed \$62.

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:

West Lake Fire Department, Inc.

WEST LAKE FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by the VFRA Act:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
01/17/19	1424	Fire company administrative expense	\$ 2,922
04/04/19	1446	Member labor for equipment installation – Personal vehicle	400
05/17/19	1459	Member labor for equipment installation – Personal vehicle	550
11/29/19	1497	Fire company administrative expense	2,922
03/08/20	1513	Member labor for equipment installation – Personal vehicle	400
04/04/20	1517	Member labor for equipment installation – Personal vehicle	1,000
06/22/20	1523	Member labor for equipment installation – Personal vehicle	1,200
Total			<u>\$ 9,394</u>

Criteria: Section 7416(f) of the VFRA Act states:

The funds of any volunteer firefighters' relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.
- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

Costs associated with the payment of the fire company's administrative expenses and the payment of member labor charges for equipment installation on personal vehicles do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by the VFRA Act.

WEST LAKE FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by the VFRA Act.

Recommendation: We recommend that the relief association be reimbursed \$9,394 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of the VFRA Act to aid them in determining the propriety of 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$9,394 for the unauthorized expenditures on October 5, 2021.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$9,394 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Undocumented Expenditures

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

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
03/01/18	1347	Fitness vendor	\$ 1,000
08/08/18	1391	Relief member	25
10/04/18	1399	Financial institution credit card	38
Total			<u>\$ 1,063</u>

Criteria: Section 7418(a) of the VFRA Act 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.

WEST LAKE FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: The relief association officials indicated that invoices for these purchases were not maintained as required by the relief associations operating procedures.

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 Section 7416(f) of the VFRA Act. 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 \$1,063 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$1,063 for the undocumented expenditures on October 5, 2021.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$1,063 was received. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

WEST LAKE FIREMEN'S RELIEF ASSOCIATION OBSERVATION

Observation – Petty Cash Account

During the current audit period, relief association officials disclosed that they set up and have been utilizing a petty cash account to pay for various purchases by funding this account with relief association monies. During our examination of the petty cash account, it was determined that there were reimbursements to members for equipment purchased, equipment maintenance, training expenditures, and administrative expenses. It could not be determined if all expenditures were solely for relief association business or if there was commingling of funds with the affiliated fire company.

The VFRA Act requires 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. The petty cash account did not require the necessary signatures for the transfer of these funds or any withdrawals. Furthermore, relief association funds should not be commingled with any other organizations' funds in order to maintain effective control of its assets.

The relief association officials should discontinue the practice of maintaining a petty cash account for the payment of expenditures made in the day-to-day operations of the relief association. Proper internal controls should be maintained to help protect relief association assets from possible fraud, waste, abuse, or misappropriation of assets. It is the responsibility of relief association officials to ensure that proper internal controls are maintained to help protect relief association assets from potential fraud, waste, abuse, or misappropriation of assets.

Subsequent to the period under review, the relief association indicated that it discontinued the use of the petty cash account by closing it and depositing the remaining cash assets into their checking account on September 29, 2021.

WEST LAKE FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

West Lake Firemen's Relief Association Governing Body:

Mr. Dom Quadri
President

Mr. Kirk McCaslin
Vice President

Mr. Steve Santucci
Secretary

Mr. Russell Rison
Treasurer

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

Ms. Sheryl A. Williams
Secretary
Millcreek 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.