

COMPLIANCE AUDIT

Corry Firemen's Relief Association Erie County, Pennsylvania For the Period January 1, 2021, to December 31, 2022

July 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. John Maloney, President
Corry Firemen's Relief Association
Erie County

We have conducted a compliance audit of the Corry Firemen's Relief Association (relief association) for the period January 1, 2021, 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 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 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 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, 2021, to December 31, 2022, 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 – Duplicate Payment

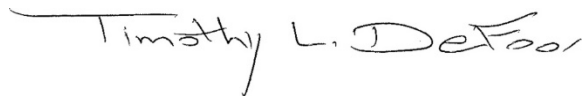
Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 3 – Inadequate Signatory Authority For The Disbursement Of Funds And Inadequate Relief Association Bylaws

Finding No. 4 – Inappropriate Ownership Of Rescue Vehicle

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
July 1, 2024

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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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2021</u>	<u>2022</u>
Concord Township	Erie	\$ 1,996	\$ 2,372
Corry City	Erie	\$17,701	\$20,925
Wayne Township	Erie	\$ 391	\$ 460
Columbus Township	Warren	\$ 7,888	\$ 8,368

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 and investments as of December 31, 2022, were \$379,398, as illustrated below:

Cash	\$ 93,266
Fair Value of Investments	<u>286,132</u>
Total Cash and Investments	<u>\$ 379,398</u>

Based on the relief association’s records, its total expenditures for the period January 1, 2021, to December 31, 2022, were \$152,079, 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	\$ 19,616
Relief benefits	<u>2,717</u>
Total Benefit Services	<u>\$ 22,333</u>
Fire Services:	
Equipment purchased	\$ 110,794
Equipment maintenance	3,306
Training expenses	<u>12,411</u>
Total Fire Services	<u>\$ 126,511</u>
Administrative Services:	
Bond premiums	\$ 1,800
Other administrative expenses	<u>985</u>
Total Administrative Services	<u>\$ 2,785</u>
Other Expenditures:	
Duplicate expenditure – See Finding No. 1	<u>\$ 450</u>
Total Expenditures	<u>\$ 152,079</u>

⁴ 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:

Corry Regional Fire Company

CORRY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Duplicate Payment

Condition: On January 30, 2022, the relief association expended \$450 for their bond policy premium. On March 7, 2022, the relief association erroneously made a duplicate payment for the same bond policy premium. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices and to ensure duplicate payments are recouped.

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

Effect: As a result of the erroneous payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$450 for the erroneous duplicate payment. The relief association officials should consider contacting the vendor to recover the duplicate payment. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association 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 \$450 for the unauthorized expenditures on April 4, 2023.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$450 was received. Compliance for duplicate payments made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$45,000; however, as of December 31, 2022, the relief association's cash assets totaled \$93,266.

CORRY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 failed to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with the VFRA Act provisions and stated they did not realize that they needed more coverage.

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

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by the VFRA Act. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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.

CORRY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Signatory Authority For The Disbursement Of Funds And Inadequate Relief Association Bylaws

Condition: During the current audit engagement, we identified 23 checks out of 97 checks, and 23 out of 67 checks in the post audit period, drawn on the relief association's checking account that only contained the signature of one officer (the Relief Association President), even though two signatures are required by the VFRA Act and the relief association's bylaws. Issuing checks with the signature of only one relief association officer negates the relief association's internal control over the disbursement process.

In addition, we identified one check out of 67 checks in the post audit period drawn on the relief association's checking account that contained no signatures. Issuing checks without the signatures of any relief association officers negates the relief association's internal control over the disbursement process.

Furthermore, the existing bylaws of the relief association do not clearly address one of the provisions required by Section 7415(c) of the VFRA Act. Specifically, the existing bylaws of the relief association do not contain the requirement that the signatures of at least two officers, one of whom shall be the disbursing officer, are required to be included on all negotiable instruments.

Criteria: Section 7415(c)(3) of the VFRA Act states, in part:

The bylaws shall require 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.

In addition, the relief association's bylaws at Article VI, Section 3 states, in part:

Duties of the officers shall be:

President: ...to sign all orders on the Treasurer.

Vice President: ...he shall have the full powers of the President.

Secretary: ...he shall draw and sign all orders on the Treasurer.

Treasurer: It shall be the duty of the Treasurer to keep a true and regular account of all receipts and disbursements of all money in a book provided and owned by the Corry Firemen's Relief Association; to receive from the Secretary all monies collected by him, giving him a receipt therefore, and disburse the same only a written order signed by the President and Secretary; he shall pay all orders drawn within five (5) days, providing the amount is in the Treasury.

CORRY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: A relief association official stated that other members with signatory authority were not present in a timely manner to mail out payments. The relief association officials did not provide a reason why the bylaws did not include provisions regarding the required signatures on checks that is in compliance with the VFRA Act.

Effect: The bylaws not including the proper provision regarding the required signatures on checks may have led to the relief association issuing checks without the signatory authority necessary to comply with the VFRA Act. As a result of the relief association officers issuing checks with only one signature or with no signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditure. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act and properly authorize the operating procedures of the relief association. We also recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two authorized relief association officers, one of whom shall be the Treasurer, are included on all relief association negotiable instruments as defined by the VFRA Act and the relief association's bylaws. 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.

CORRY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inappropriate Ownership Of Rescue Vehicle

Condition: On March 31, 2021, the relief association purchased a rescue vehicle, in the amount of \$50,000, to carry personnel and safeguard equipment; however, the title to the vehicle was inappropriately issued in the name of the fire company.

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: A relief association official stated that the title was erroneously issued in the affiliated fire company's name when purchased.

Effect: As a result of the rescue vehicle being inappropriately titled in the name of the fire company, this relief association asset was not properly safeguarded.

Recommendation: We 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 \$50,000. 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, as a result of our audit, a corrected title showing the relief association as the sole owner of the rescue vehicle was provided.

Auditor's Conclusion: We reviewed the title showing the relief association as the owner of the rescue vehicle. Compliance for properly titled vehicles will be subject to verification through our next audit.

CORRY FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Corry Firemen's Relief Association Governing Body:

Mr. John Maloney
President

Mr. Shawn McCray
Treasurer

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

Ms. Janice Ohl
Secretary
Concord Township

Ms. Laura L. Thomas
Secretary
Corry City

Mr. Chris Hornick
Secretary
Wayne Township

Mr. Chris M. Lyon
Secretary
Columbus Township

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