

# COMPLIANCE AUDIT

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## Lake Silkworth Volunteer Firemen's Relief Association

Luzerne County, Pennsylvania

For the Period

January 1, 2020, to December 31, 2022

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March 2024



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General

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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. Eric Morgan, President  
Lake Silkworth Volunteer Firemen's  
Relief Association  
Luzerne County

We have conducted a compliance audit of the Lake Silkworth Volunteer Firemen's Relief Association (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 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, 2020, 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 – Untimely Deposits Of State Aid

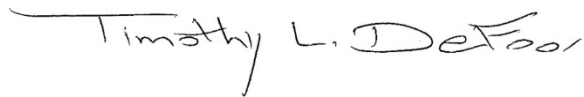
Finding No. 2 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

Finding No. 3 – Undocumented Expenditure

Finding No. 4 – Insufficient 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 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 7, 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 Code<sup>1</sup>, and the Volunteer Firefighters' Relief Association Act<sup>2</sup> ("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 Law<sup>3</sup> (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.

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<sup>1</sup> 72 P.S. § 403 (as last amended by Act 44 of 2017).

<sup>2</sup> 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

<sup>3</sup> 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

**BACKGROUND – (Continued)**

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

<u>Municipality</u>	<u>County</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Lake Township	Luzerne	\$2,331	\$2,092	\$2,522
Lehman Township	Luzerne	\$7,158	\$6,323	\$7,568*
Plymouth Township	Luzerne	\$2,207*	\$1,971	\$2,331

\* The 2020 and 2022 state aid allocations received from Plymouth Township and Lehman Township were not deposited by the relief association until January 8, 2021, and December 15, 2023, respectively, as disclosed in Finding No. 1 in this report.

Based on the relief association’s records, its total cash as of December 31, 2022, was \$40,089, as illustrated below:

Cash	<u>\$ 40,089</u>
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## BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$26,468, 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>4</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	<u>\$ 5,720</u>
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#### Fire Services:

Equipment purchased	\$ 12,576
Equipment maintenance	2,033
Training expenses	<u>105</u>
Total Fire Services	<u>\$ 14,714</u>

#### Administrative Services:

Other administrative expenses	<u>\$ 431</u>
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#### Other Expenditures:

Miscellaneous *	\$ 650
Undocumented expenditure – See Finding No. 3	<u>953</u>
Total Other Expenditures	<u>\$ 1,603</u>

Total Expenditures	<u><u>\$ 26,468</u></u>
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\* The relief association made two erroneous deposits during the audit period. On November 22, 2022, the relief association returned the \$650 to the affiliated fire department.

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:

Lake Silkworth Volunteer Fire Department

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

LAKE SILKWORTH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Untimely Deposits Of State Aid**

Condition: The relief association did not deposit the 2020 state aid allocation it received from Plymouth Township, in the amount of \$2,207, until January 8, 2021. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 22, 2020, who forwarded this state aid to the relief association on November 20, 2020, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

In addition, the relief association did not deposit the 2022 state aid allocation it received from Lehman Township, in the amount of \$7,568, until December 15, 2023. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2022, who forwarded this state aid to the relief association on October 7, 2022, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, the state aid allocation was erroneously deposited into the affiliated fire department's account. Therefore, the relief association did not ensure the funds were deposited timely into a relief association account. As a result of our audit, on December 15, 2023, the relief association received and deposited \$7,568 into a relief association account.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that upon receipt of its state aid allocations, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

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

Effect: As a result of the untimely deposits, funds were not available to pay general operating expenses or for investment purposes. In addition, untimely deposits of receipts increase the risk that funds could be lost or misappropriated.



LAKE SILKWORTH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely deposit of all future income received. 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.

**Finding No. 2 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle**

Condition: In 2006, the relief association expended \$10,401 towards the joint purchase of a 2005 Ford F-550 with the affiliated fire department which had a total cost of \$125,707. The relief association entered into an agreement with the affiliated fire department dated April 17, 2006, where the relief association would receive the pro-rata share percentage of 8.27% if the vehicle was ever sold. In 2021, the jointly purchased vehicle was sold for \$52,500; however, the relief association did not receive and deposit its proportional ownership interest of the proceeds from the sale of the jointly purchased vehicle.

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.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold. Once the vehicle is sold, the relief association officials should closely monitor all sales to ensure proceeds are received and timely deposited into a relief association account.

LAKE SILKWORTH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: Relief association officials did execute a formal written agreement with the fire department; however, they failed to ensure that it received and deposited its proportional ownership interest due from the proceeds of the sale of a jointly purchased vehicle with the affiliated fire department into a relief association account.

Effect: The failure to receive and deposit the proceeds from the sale of a jointly purchased vehicle with the affiliated fire department places the relief association's ownership interest at greater risk. As a result, the relief association was unable to use the funds for general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$4,342 for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all future proceeds resulting from the sale of a jointly purchased vehicle are timely deposited in a relief association account. 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 department reimbursed the relief association \$4,342 for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle on December 15, 2023.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$4,342 was received. Compliance for jointly purchased vehicle sales made during the next audit period will be subject to verification through our next audit.

**Finding No. 3 – Undocumented Expenditure**

Condition: The relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$953 to the affiliated fire department on June 30, 2022.

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.

LAKE SILKWORTH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

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

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

Effect: Lack of supporting documentation, such as an invoice and/or itemized receipt, made it impossible to determine if the expenditure was 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 an invoice and/or itemized receipt, to ensure the propriety of the expenditure or that the relief association be reimbursed \$953 for the undocumented expenditure. 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 department reimbursed the relief association \$953 for the undocumented expenditure on December 15, 2023.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$953 was received. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

**Finding No. 4 – 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 \$31,000; however, as of December 31, 2022, the relief association's cash assets totaled \$40,089.

LAKE SILKWORTH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (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 did not provide a reason why this occurred.

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.

LAKE SILKWORTH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

Lake Silkworth Volunteer Firemen's Relief Association Governing Body:

**Mr. Eric Morgan**  
President

**Mr. James Grady**  
Vice President

**Ms. Jacqueline Morgan**  
Secretary

**Ms. Rebecca Grady**  
Treasurer

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

**Ms. J. Carlene Price**  
Secretary  
Lake Township

**Ms. Laura Elderkin**  
Secretary  
Lehman Township

**Mr. Steven Grzymiski**  
Secretary  
Plymouth Township

LAKE SILKWORTH VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
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