

COMPLIANCE AUDIT

McKean Volunteer Fireman's Relief Association, Incorporated Erie County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

June 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Mark Courson, President
McKean Volunteer Fireman's Relief
Association, Incorporated
Erie County

We have conducted a compliance audit of the McKean Volunteer Fireman's Relief Association, Incorporated (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, 2018 to December 31, 2020.

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 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, 2018 to December 31, 2020:

- The relief association took appropriate corrective action to address one of the three findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the two 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 – Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Surety (Fidelity) Bond Coverage

Finding No. 3 – Failure To Maintain Meeting Minutes

Finding No. 4 – Inappropriate Presigning of Blank Checks

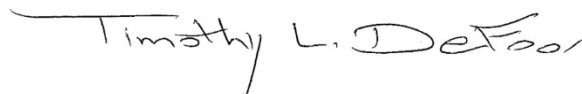
Finding No. 5 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 6 – Failure To Maintain A Complete And Accurate Membership Roster

Finding No. 7 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

The seven findings contained in this report cite conditions that existed in the operation of the relief association during the current audit period. 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.



Timothy L. DeFoor
Auditor General

May 21, 2021

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	4
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures	5
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Surety (Fidelity) Bond Coverage.....	6
Finding No. 3 – Failure To Maintain Minutes Of Meetings	7
Finding No. 4 – Inappropriate Presigning Of Blank Checks	8
Finding No. 5 – Failure To Maintain A Complete And Accurate Equipment Roster.....	9
Finding No. 6 – Failure To Maintain A Complete And Accurate Membership Roster	10
Finding No. 7 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number	11
Report Distribution List	13

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.

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
McKean Borough	Erie	\$ 1,822	\$ 2,026	\$ 2,006
McKean Township	Erie	\$23,881	\$25,762	\$25,994

Based on the relief association’s records, its total cash as of December 31, 2020 was \$145,535, as illustrated below:

Cash	<u><u>\$ 145,535</u></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 \$60,986, 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.¹ **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>\$ 12,072</u>
Fire Services:	
Equipment purchased	\$ 20,077
Equipment maintenance	4,051
Training expenses	17,993
Fire prevention materials	<u>2,224</u>
Total Fire Services	<u>\$ 44,345</u>
Administrative Services:	
Other administrative expenses	<u>\$ 2,769</u>
Other Expenditures:	
Undocumented expenditure	<u>\$ 1,800</u>
Total Expenditures	<u><u>\$ 60,986</u></u>

¹ 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:

McKean Hose Company

MCKEAN VOLUNTEER FIREMAN'S RELIEF ASSOCIATION, INCORPORATED
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Untimely Receipts And Deposits Of State Aid

By timely depositing all income received.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Undocumented Expenditures
- Failure To Maintain Surety (Fidelity) Bond Coverage

We are concerned by the relief association's failure to correct those previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

MCKEAN VOLUNTEER FIREMAN'S RELIEF ASSOCIATION, INCORPORATED
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

Condition: During the two prior audit periods, the relief association was unable to provide adequate supporting documentation for expenditures amounting to \$559, and the relief association officials did not take corrective action to address the undocumented expenditures prior to the current audit period ending December 31, 2020. In addition, during the current audit period, the relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$1,800 for a gym membership on April 15, 2018.

Criteria: Section 7418(a) of Act 118 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 supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: The relief association officials did not provide a reason for why this occurred despite the relief association being notified of this condition during our two previous audits.

Effect: Lack of supporting documentation, such as invoices and/or itemized receipts, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of Act 118. 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 again 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 \$2,359 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.

MCKEAN VOLUNTEER FIREMAN'S RELIEF ASSOCIATION, INCORPORATED
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 \$559 for the prior audit undocumented expenditures on February 24, 2021.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$559 was received; however, we continue to recommend that the relief association officials provide this department with adequate supporting documentation for the remaining expenditure or that the relief association be reimbursed \$1,800 for the undocumented expenditure. 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. Full compliance for the remaining undocumented expenditures and any expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – 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 Act 118. The relief association's Surety (Fidelity) bond coverage expired on October 14, 2014. As of December 31, 2020, the relief association's cash assets totaled \$145,535.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(c)(4) of Act 118 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: The relief association officials did not provide a reason for why this occurred despite the relief association being notified of this condition during our two previous audits.

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.

MCKEAN VOLUNTEER FIREMAN'S RELIEF ASSOCIATION, INCORPORATED
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again 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 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, as a result of our audit, the relief association purchased sufficient bond coverage on February 24, 2021.

Auditor's Conclusion: We reviewed documentation verifying that sufficient bond coverage was obtained on February 24, 2021. Compliance for maintaining bond coverage during the next audit period will be subject to verification through our next audit.

Finding No. 3 – Failure To Maintain Minutes Of Meetings

Condition: The relief association did not maintain minutes of meetings as required by Act 118 and the relief association's bylaws.

Criteria: Section 7415(a) of Act 118 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.

In addition, the relief association's bylaws at Article IV, Section 6 states:

The Secretary shall keep a true and accurate record of the proceedings of the Board and of the Association.

Cause: Relief association officials indicated they did not have access to the relief association's meeting minutes and that they made numerous requests to the relief association secretary to provide them.

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

MCKEAN VOLUNTEER FIREMAN'S RELIEF ASSOCIATION, INCORPORATED
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the relief association officials maintain a permanent record of all relief association meetings as required by Act 118 and the relief association's bylaws. The minutes should include an adequate record of all financial-related business conducted by the relief association. 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. 4 – Inappropriate Presigning Of Blank Checks

Condition: A review of the relief association's checkbook, at the time of the audit engagement, revealed that three blank checks were presigned by one of the two relief association officers who are authorized to sign checks. The presigning of blank checks negates the relief association's internal control over the disbursement process.

Criteria: Prudent business practice dictates that the relief association has sufficient internal control procedures in place to prohibit the presigning of blank checks. 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 signing the checks.

Cause: The relief association officials cited COVID-19 restrictions made it difficult to attain the required signatures on checks to ensure timely disbursements.

Effect: As a result of one of the two authorized relief association officers presigning the blank checks, assets were placed at greater risk of misappropriation since the officer who presigned the blank checks did not have the opportunity to verify the propriety of the expenditures.

MCKEAN VOLUNTEER FIREMAN'S RELIEF ASSOCIATION, INCORPORATED
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend that the practice of presigning blank checks be immediately discontinued. We also recommend that all of the relief association officers ensure that checks are signed and co-signed only after the propriety of the expenditures have been determined and the payees, dates, and amounts to be paid have been confirmed. 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. 5 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Specifically, the relief association purchased \$20,077 of equipment during the current audit period and there was no equipment roster created or maintained for these purchases. In addition, there was no evidence that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

Cause: The relief association officials stated lack of effort as a reason for why this occurred.

MCKEAN VOLUNTEER FIREMAN'S RELIEF ASSOCIATION, INCORPORATED
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. 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 began to take action to comply with the recommendation noted in this report.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

Finding No. 6 – Failure To Maintain A Complete And Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members' mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

MCKEAN VOLUNTEER FIREMAN'S RELIEF ASSOCIATION, INCORPORATED
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Cause: Relief association officials did not provide a reason for not maintaining a comprehensive roster, including the elements listed above, of relief association members.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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. 7 – 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 December 31, 2013, and is no longer valid.

Criteria: Section 7415(e) of Act 118 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: The relief association officials did not provide a reason for why this occurred despite the relief association being notified of this condition through verbal observations during our two previous audits.

MCKEAN VOLUNTEER FIREMAN'S RELIEF ASSOCIATION, INCORPORATED
FINDINGS AND RECOMMENDATIONS

Finding No. 7 – (Continued)

Effect: As a result of the relief association's 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 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: Compliance will be subject to verification through our next audit.

MCKEAN VOLUNTEER FIREMAN'S RELIEF ASSOCIATION, INCORPORATED
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

McKean Volunteer Fireman's Relief Association, Incorporated Governing Body:

Mr. Mark Courson
President

Mr. John Rainey
Vice President

Ms. Heather Courson
Secretary

Mr. Scott Haywood
Treasurer

Mr. Matt Shaffer
Director

Mr. John Meyer
Director

MCKEAN VOLUNTEER FIREMAN'S RELIEF ASSOCIATION, INCORPORATED
REPORT DISTRIBUTION LIST

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

Ms. Teri Dillen
Secretary
McKean Borough

Ms. Janice T. Dennis
Secretary
McKean 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.