

# COMPLIANCE AUDIT

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## North End Volunteer Fireman's Relief Association of Pine Grove Schuylkill County, Pennsylvania For the Period January 1, 2012 to December 31, 2015

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May 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Lee Strubhar, President  
North End Volunteer Fireman's  
Relief Association of Pine Grove  
Schuylkill County

We have conducted a compliance audit of the North End Volunteer Fireman's Relief Association of Pine Grove (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, 2012 to December 31, 2015.

The objective of the audit was to determine if the relief association received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures. Our audit was limited to the areas related to the objective identified above.

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.

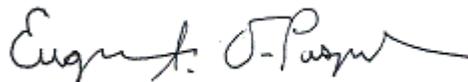
Based on our audit procedures, we conclude that, for the period January 1, 2012 to December 31, 2015, the relief association, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Relief Association Checking And Investment Accounts Inappropriately Registered Under Affiliated Fire Service Organization’s Federal Tax Identification Number

Finding No. 2 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

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.



EUGENE A. DEPASQUALE  
Auditor General

May 2, 2016

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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. The relief association's bylaws define the specific operational procedures by which the relief association conducts 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 the relief association 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>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|---------------------|---------------|-------------|-------------|-------------|-------------|
| Pine Grove Borough  | Schuylkill    | \$5,438     | \$6,096     | \$5,751     | \$5,568     |
| Washington Township | Schuylkill    | \$4,326     | \$4,907     | \$4,660     | \$4,428     |

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:

North End Fire Company of Pine Grove

NORTH END VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF PINE GROVE  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Relief Association Checking And Investment Accounts Inappropriately Registered Under Affiliated Fire Service Organization's Federal Tax Identification Number**

Condition: As of December 31, 2015, the relief association held a checking account with a balance of \$13,581 and a mutual fund with a total cost value of \$7,006 which were inappropriately registered under the fire company's federal tax identification number rather than the relief association's identification number. The checking and investment accounts represent 100 percent of the relief association's total monetary assets.

Criteria: Prudent business practice dictates that the relief association maintain ownership of all checking and investment accounts as a means of safeguarding its assets from unauthorized use or disposition.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that the checking and investment accounts were registered with the relief association's federal tax identification number.

Effect: As a result of the checking and investment accounts being inappropriately registered under another entity's federal tax identification number, these relief association assets were not properly safeguarded.

Recommendation: We recommend that the relief association officials secure ownership rights to all monetary assets. This requirement can be accomplished by ensuring that all checking and investment accounts are registered under the relief association's federal tax identification number. 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 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 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 August 31, 2010, and is no longer valid.

NORTH END VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF PINE GROVE  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Criteria: Act 118 at 35 Pa.C.S. 7415(e) 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: Relief association officials indicated that they were unaware that its sales tax exemption number from the Pennsylvania Department of Revenue had expired.

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 and indicated they will take action to comply with the recommendation.

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

NORTH END VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF PINE GROVE  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2015

|                                    |    |        |
|------------------------------------|----|--------|
| Cash Balance:                      | \$ | 13,581 |
| Fair Value of Investments Balance: | \$ | 7,006  |

Expenditures:

Benefit Services:

|                                 |    |           |
|---------------------------------|----|-----------|
| Tokens of sympathy and goodwill | \$ | <u>75</u> |
|---------------------------------|----|-----------|

Fire Services:

|                           |    |               |
|---------------------------|----|---------------|
| Equipment purchased       | \$ | 26,792        |
| Equipment maintenance     |    | 11,485        |
| Training expenses         |    | 2,135         |
| Fire prevention materials |    | <u>630</u>    |
| Total Fire Services       | \$ | <u>41,042</u> |

Administrative Services:

|                               |    |              |
|-------------------------------|----|--------------|
| Officer compensation          | \$ | 1,640        |
| Other administrative expenses |    | 835          |
| Bond premiums                 |    | <u>375</u>   |
| Total Administrative Services | \$ | <u>2,850</u> |

NORTH END VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF PINE GROVE  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

North End Volunteer Fireman's Relief Association of Pine Grove Governing Body:

**Mr. Lee Strubhar**  
President

**Mr. Ben Readinger**  
Vice President

**Mr. Nick Miller**  
Secretary

**Mr. Travis Humphrey**  
Treasurer

**Mr. Mike Stalnecker**  
Trustee

**Mr. Steve Schlegel**  
Trustee

**Mr. Clair Garman**  
Trustee

**Mr. Anthony Kauffman**  
Trustee

**Mr. James Lewis**  
Trustee

NORTH END VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF PINE GROVE  
REPORT DISTRIBUTION LIST

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

**Ms. Melissa A. Dyer**  
Secretary  
Pine Grove Borough

**Ms. Dawn A. Koch**  
Secretary  
Washington 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).