

COMPLIANCE AUDIT

Midland Firemans Relief Association Beaver County, Pennsylvania For the Period January 1, 2019, to December 31, 2022

September 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Richard Corradi, President
Midland Firemans Relief Association
Beaver County

We have conducted a compliance audit of the Midland Firemans Relief Association (relief association) for the period January 1, 2019, 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.

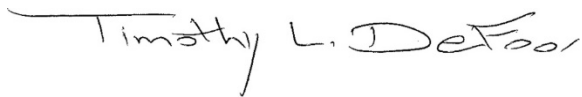
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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, 2019, 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 Receipt And Deposit Of State Aid

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

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 long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
August 28, 2023

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Untimely Receipt And Deposit Of State Aid.....	4
Finding No. 2 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number.....	5
Report Distribution List.....	7

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>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Midland Borough	Beaver	\$10,506	\$10,669	\$9,545*	\$10,939

* The 2021 state aid allocation received from Midland Borough was not deposited by the relief association until April 21, 2022, as disclosed in Finding No. 1 in this report.

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 \$75,954, as illustrated below:

Cash	\$ 35,919
Fair Value of Investments	<u>40,035</u>
Total Cash and Investments	<u>\$ 75,954</u>

Based on the relief association's records, its total expenditures for the period January 1, 2019, to December 31, 2022, were \$42,352, 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	\$ 18,660
Relief benefits	<u>50</u>
Total Benefit Services	<u>\$ 18,710</u>
Fire Services:	
Equipment purchased	\$ 14,250
Equipment maintenance	7,536
Training expenses	<u>656</u>
Total Fire Services	<u>\$ 22,442</u>
Administrative Services:	
Bond premiums	\$ 400
Officer compensation	600
Other administrative expenses	<u>200</u>
Total Administrative Services	<u>\$ 1,200</u>
Total Expenditures	<u>\$ 42,352</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:

Midland Volunteer Fire Department

MIDLAND FIREMANS RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Receipt And Deposit Of State Aid

Condition: Although Midland Borough prepared and returned a Certification Form AG 385 for 2021 by the March 31 annual filing date in accordance with Act 205, the borough did not distribute the 2021 state aid to the relief association in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2021, who forwarded this state aid to the relief association on February 17, 2022, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). The relief association had no documentation showing that it had attempted to obtain the funds from the borough. Additionally, the relief association did not deposit the 2021 state aid allocation it received from Midland Borough, in the amount of \$9,545, until April 21, 2022, more than two months after receipt of the funds.

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 the relief association officials should be questioning the municipality about their state aid if only one relief association is in the fire service area and upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure state aid funds are obtained and deposited in a timely manner.

Cause: The relief association officials indicated that the foreign fire insurance tax allocation was not distributed to the relief association within the required 60 days of receipt by the Midland Municipal Treasurer. The relief association officials did not provide a reason why the state aid was not deposited timely once received.

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds increases the risk that funds could be lost or misappropriated.

MIDLAND FIREMANS 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 receipt and timely deposit of all future income. 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 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 January 24, 2007, and is no longer valid.

Criteria: Section 7415(e) of the VFRA Act 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.

MIDLAND FIREMANS RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

MIDLAND FIREMANS RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Midland Firemans Relief Association Governing Body:

Mr. Richard Corradi
President

Ms. Kelley Schulte
Secretary

Ms. Ranee D'Itri
Treasurer

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

Mr. David F. Tye
Secretary
Midland Borough

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.