

COMPLIANCE AUDIT

Portage Volunteer Fire Company No. 1, Relief Association of Portage, Pennsylvania Cambria County For the Period January 1, 2019, to December 31, 2022

June 2023



Commonwealth of Pennsylvania
Department of the Auditor General
Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Ms. Patricia Rousell, President
Portage Volunteer Fire Company No. 1,
Relief Association of Portage, Pennsylvania
Cambria County

We have conducted a compliance audit of the Portage Volunteer Fire Company No. 1, Relief Association of Portage, Pennsylvania (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.

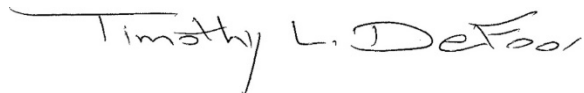
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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 – Failure To Maintain Surety (Fidelity) Bond Coverage

Finding No. 2 – Payment Of Pennsylvania Sales Tax

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
May 2, 2023

CONTENTS

| | <u>Page</u> |
|--|-------------|
| Background..... | 1 |
| Findings and Recommendations: | |
| Finding No. 1 – Failure To Maintain Surety (Fidelity) Bond Coverage..... | 4 |
| Finding No. 2 – Payment Of Pennsylvania Sales Tax | 5 |
| Report Distribution List | 6 |

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.

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)

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

| <u>Municipality</u> | <u>County</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|---------------------|---------------|-------------|-------------|-------------|-------------|
| Cassandra Borough | Cambria | \$ 555* | \$ 563* | \$ 505* | \$ 666* |
| Portage Borough | Cambria | \$10,444 | \$10,549 | \$ 9,357 | \$10,828 |
| Portage Township | Cambria | \$16,133 | \$16,345 | \$14,517 | \$17,066 |

* Although Cassandra Borough prepared and returned Certification Forms AG 385 for 2019, 2020, 2021 and 2022, the borough failed to complete the 2019, 2020, 2021 and 2022 Receipt And Distribution Of Foreign Fire Insurance Premium Tax Forms 706-B online as required by the instructions accompanying Form 706-B and the instructions accompanying the 2019, 2020, 2021 and 2022 state aid allocations received by the borough disclosing this information.

Cassandra Borough is still required to complete the 2019, 2020, 2021 and 2022 Receipt And Distribution Of Foreign Fire Insurance Premium Tax Forms 706-B online within the Department of Community & Economic Development’s Municipal Statistics website (MunStats) immediately.

Based on the relief association’s records, its total cash and investments as of December 31, 2022, were \$115,819, as illustrated below:

| | |
|----------------------------|--------------------------|
| Cash | \$ 24,200 |
| Fair Value of Investments | <u>91,619</u> |
| Total Cash and Investments | <u><u>\$ 115,819</u></u> |

BACKGROUND – (Continued)

Based on the relief association's records, its total expenditures for the period January 1, 2019, to December 31, 2022, were \$135,367, 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 | \$ 7,296 |
| Death benefits | 24,000 |
| Total Benefit Services | <u>\$ 31,296</u> |

Fire Services:

| | |
|---------------------------|------------------|
| Equipment purchased | \$ 62,674 |
| Equipment maintenance | 16,418 |
| Training expenses | 9,734 |
| Fire prevention materials | 7,563 |
| Total Fire Services | <u>\$ 96,389</u> |

Administrative Services:

| | |
|-------------------------------|-----------------|
| Bond premiums | \$ 1,280 |
| Officer compensation | 1,000 |
| Other administrative expenses | 75 |
| Total Administrative Services | <u>\$ 2,355</u> |

| | |
|-----------------------------|-----------------|
| Total Investments Purchased | <u>\$ 5,000</u> |
|-----------------------------|-----------------|

Other Expenditures:

| | |
|-----------------------------|---------------|
| Unauthorized sales tax paid | <u>\$ 327</u> |
|-----------------------------|---------------|

| | |
|--------------------|--------------------------|
| Total Expenditures | <u><u>\$ 135,367</u></u> |
|--------------------|--------------------------|

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:

Portage Volunteer Fire Company No. 1

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

PORTAGE VOLUNTEER FIRE COMPANY NO. 1, RELIEF ASSOCIATION OF PORTAGE,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – 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 the VFRA Act. The relief association's Surety (Fidelity) bond coverage expired on March 8, 2021. As of December 31, 2022, the relief association's cash assets totaled \$24,200.

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 indicated that insurance carriers were changed, and the surety bond coverage was overlooked.

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.

Recommendation: We 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 the VFRA Act. 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 bond coverage in an amount greater than the relief association's maximum cash balance on February 1, 2023.

Auditor's Conclusion: We reviewed documentation verifying that bond coverage was obtained on February 1, 2023. Compliance for maintaining bond coverage during the next audit period will be subject to verification through our next audit.

PORTAGE VOLUNTEER FIRE COMPANY NO. 1, RELIEF ASSOCIATION OF PORTAGE,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Payment Of Pennsylvania Sales Tax

Condition: The relief association paid \$327 of Pennsylvania sales tax to multiple vendors from which the relief association purchased goods and services. This payment would not have been required if the relief association had provided its sales tax exemption number to the vendors.

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 sales tax was not to be paid from relief association funds.

Effect: As a result of the relief association's failure to provide its sales tax exemption number to all vendors, the relief association was required to pay Pennsylvania sales tax on its purchase, which reduced the funds otherwise available for general operating expenditures and for investment purposes.

Recommendation: We recommend that the relief association officials seek a refund of the sales tax paid, in the amount of \$327, by filing an appeal form (REV-65BA) with the Pennsylvania Department of Revenue's Board of Appeals. In addition, we recommend that, in the future, relief association officials furnish its state sales tax exemption number to all vendors from which 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.

PORTAGE VOLUNTEER FIRE COMPANY NO. 1, RELIEF ASSOCIATION OF PORTAGE,
PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Portage Volunteer Fire Company No. 1, Relief Association of Portage, Pennsylvania Governing
Body:

Ms. Patricia Rousell
President

Mr. Lawrence Duray
Vice President

Ms. Erin Shuniak
Secretary

Mr. Edmund Myers
Treasurer

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

Ms. Melissa Husar
Secretary
Cassandra Borough

Ms. Michelle D. Claar
Secretary
Portage Borough

Ms. Michelle Kostan
Secretary
Portage Township

PORTAGE VOLUNTEER FIRE COMPANY NO. 1, RELIEF ASSOCIATION OF PORTAGE,
PENNSYLVANIA
REPORT DISTRIBUTION LIST

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.