

COMPLIANCE AUDIT

Avalon Volunteer Fire Company Relief Association of Avalon, Pennsylvania Allegheny County For the Period January 1, 2019, to December 31, 2022

August 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. James Carroll, President
Avalon Volunteer Fire Company Relief
Association of Avalon, Pennsylvania
Allegheny County

We have conducted a compliance audit of the Avalon Volunteer Fire Company Relief Association of Avalon, 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.

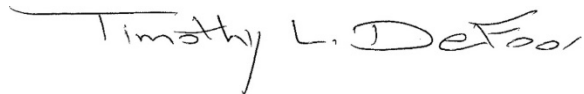
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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/Access Minutes Of Meetings And Inadequate Relief Association Bylaws

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.



Timothy L. DeFoor
Auditor General
August 3, 2023

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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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Avalon Borough	Allegheny	\$20,455	\$20,808	\$18,554	\$22,927
Ben Avon Heights	Allegheny	\$ 2,819	\$ 2,843	\$ 2,513	\$ 3,224

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 \$143,965, as illustrated below:

Cash	\$ 27,659
Fair Value of Investments	<u>116,306</u>
Total Cash and Investments	<u>\$ 143,965</u>

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2022, were \$102,872, 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	<u>\$ 92,703</u>
Fire Services:	
Equipment purchased	<u>\$ 2,830</u>
Administrative Services:	
Bond premiums	\$ 1,036
Other administrative expenses	<u>1,610</u>
Total Administrative Services	<u>\$ 2,646</u>
Total Investments Purchased	<u>\$ 4,693</u>
Total Expenditures	<u>\$ 102,872</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:

Avalon Volunteer Fire Company

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

AVALON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF AVALON,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Maintain/Access Minutes Of Meetings And Inadequate Relief Association Bylaws

Condition: The relief association officials did not provide minutes of meetings as required by the VFRA Act and the relief association’s bylaws for the current audit period. Specifically, the relief association officials did not provide any meeting minutes because the Secretary of the Relief Association became incapacitated, and the meeting minutes were kept at his place of business. Therefore, the relief association officials did not have access to their own meeting minutes and did not have an electronic file as back-up. Furthermore, the existing bylaws of the relief association contain language to conduct business pertaining to the disbursement and investment of funds that is based on Act 84 of June 11, 1968. The relief association has not updated the bylaws to govern their organization to meet the requirements set forth in the VFRA Act (Act 118 of 2010 and Act 91 of 2020).

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

The relief association’s bylaws at Article 2, Section 3 states, in part:

The Secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note authorization by membership of all Association financial transactions and all other pertinent business discussed at meetings...The Secretary is responsible for providing the Auditor General with the Association’s minutes of the meeting and By – Laws [*Sic*] in connection with their auditing duties.

The relief association’s bylaws at Article 3, Section 1 states:

Regular meetings of this association shall be held on the last Monday of each month. Seven members shall constitute a quorum.

In addition, the relief association’s bylaws at Article 5, Section 1 states, in part:

Funds of this Association shall not be expended for any purpose other than those authorized by the provisions of Act 84 and the Association’s By – Laws.

Furthermore, the relief association’s bylaws at Article 6, Section 1 states, in part:

Funds of this Association may be invested in any security authorized by the provisions of Section 6(c) of Act 84.

AVALON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF AVALON,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: The relief association official stated that the Secretary of the Relief Association became incapacitated and kept the meeting minutes at his place of business and they were currently unable to retrieve the meeting minutes.

Effect: Without providing and/or having access to detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist. As a result of the relief association not updating the bylaws to meet the appropriate requirements, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials maintain and provide detailed minutes of meetings as required by the VFRA Act and the relief association's bylaws that are kept at the relief association's main location and/or have an electronic file of the meeting minutes as back-up, evidencing the discussion and approval of all financial-related business conducted by the relief association. The minutes should include an adequate record of all financial-related business conducted by the relief association. In addition, we recommend that the relief association officials remove the language referring to Act 84 by updating the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act (Act 118 of 2010 and Act 91 of 2020). 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: As cited as a verbal observation in prior audits, 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 31, 2010, 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.

AVALON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF AVALON,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 continued 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 again 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.

AVALON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF AVALON,
PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Avalon Volunteer Fire Company Relief Association of Avalon, Pennsylvania Governing Body:

Mr. James Carroll
President

Mr. Robert Ensminger
Vice President/Treasurer

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

Ms. Lorraine Makatura
Secretary
Avalon Borough

Ms. Jessica DiNuzzo
Secretary
Ben Avon Heights

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.