

COMPLIANCE AUDIT

Chapmanville Volunteer Firemen's Relief Association

Venango County, Pennsylvania
For the Period
January 1, 2019 to December 31, 2021

June 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Roger Sterling, President
Chapmanville Volunteer Firemen's
Relief Association
Venango County

We have conducted a compliance audit of the Chapmanville Volunteer Firemen's Relief Association (relief association) for the period January 1, 2019 to December 31, 2021. 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 objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding 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, 2019 to December 31, 2021:

- The relief association took appropriate corrective action to address the finding contained in our prior audit 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.

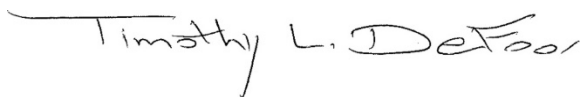
Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Finding No. 2 – Failure to Segregate Relief Association Officers' Duties And Inadequate Relief Association Bylaws

Finding No. 3 – Failure To Obtain A Federal Tax Identification Number

Finding No. 4 – Failure To Obtain 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
April 11, 2022

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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 expended properly.

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: therefore, the association officers 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>
Troy Township	Crawford	\$1,823	\$1,842	\$1,658
Plum Township	Venango	\$5,222	\$5,273	\$4,660

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 as of December 31, 2021, was \$18,810, as illustrated below:

Cash	<u>\$ 18,810</u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2019 to December 31, 2021, were \$25,382, 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>\$ 2,917</u>
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Fire Services:

Equipment purchased	\$ 17,802
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Training expenses	<u>2,410</u>
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Total Fire Services	<u>\$ 20,212</u>
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Administrative Services:

Other administrative expenses*	<u>\$ 2,246</u>
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Other Expenditures:

Unauthorized sales tax paid**	<u>\$ 7</u>
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Total Expenditures	<u><u>\$ 25,382</u></u>
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* A majority of the other administrative expenses represent \$2,146 expended in calendar year 2019 on the cost/fees for the emergency notification and response system.

** During calendar year 2020, the relief association made a \$7 disbursement that was not authorized under the VFRA Act. We disclosed this issue to relief association officials on April 7, 2022, but we did not include a finding in this report due to the relatively low dollar amount.

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:

Chapmanville Volunteer Fire Department

CHAPMANVILLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

CHAPMANVILLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Condition: During calendar years 2020 and 2021, the relief association expended a total of \$11,733 on Self Contained Breathing Apparatus and cylinders purchased jointly with the relief association's affiliated fire company through a lease-purchase agreement without properly securing its ownership interest.

Criteria: Section 7418(a) of the VFRA Act 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 the relief association should secure its proportional ownership interest in the equipment purchased jointly by the relief association and fire company by executing a formal written agreement that enumerates the relief association's proportional share of the cost of the equipment. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the equipment, in the event the equipment is ever sold.

Cause: The relief association officials did not provide a reason for why this occurred.

Effect: The failure to adequately secure the proportional share of ownership interest in the equipment which the relief association jointly purchased with the fire company places the relief association's ownership interest at greater risk.

Recommendation: We recommend that the relief association officials execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the equipment is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$11,733. 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, provided our auditors a formal written agreement on April 15, 2022.

CHAPMANVILLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Finding No. 2 – Failure To Segregate Relief Association Officers' Duties And Inadequate Relief Association Bylaws

Condition: During the current audit, we detected that the same individual holds the position of both Secretary and Treasurer of the relief association. Furthermore, the most recent edition of the relief association's bylaws, dated June 3, 2014, authorize the combination of the position/office of secretary and treasurer.

Criteria: Prudent business practice dictates that the duties of the Secretary and Treasurer be sufficiently segregated. An adequate segregation of duties is the primary internal control intended to prevent or decrease the risk of errors or irregularities.

The minimum requirements of the Secretary's position, pertaining to a relief association, are to maintain detailed minutes of meetings authorizing the relief association's financial operations. The Secretary should review and coordinate the amending of the bylaws governing the relief association so that the bylaws meet the minimum requirements of the VFRA Act.

The minimum requirements of the Treasurer's position, pertaining to a relief association, are to maintain an account of all funds belonging to the relief association. The Treasurer shall maintain a journal and ledger detailing all financial transactions of the relief association along with documentation supporting the receipts and disbursements. The Treasurer should co-sign all negotiable instruments along with another relief association officer. Also, financial statements should be prepared at least on an annual basis by the Treasurer.

Section 7415(c) of the VFRA Act states that the relief association's bylaws shall:

- (10) Contain such other provisions as may, to the membership, seem appropriate or necessary to the orderly conduct of affairs of the association.

The relief association's bylaws at Article IV states, in part:

The officers of this Association shall be as follows: President, Vice President, Secretary, Treasurer. The members who hold these offices shall be the same members who hold the same respective offices in the Chapmanville Volunteer Fire Department. The offices of Secretary and Treasurer may be held by the same person.

CHAPMANVILLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: The relief association treasurer stated that because of fraud that was committed prior to 2013, the municipality pays her to hold both positions and it was at their request that the same person be the secretary and treasurer. The treasurer also stated that other members do not want either office.

Effect: An inadequate segregation of duties could prevent relief association officials and members from effectively monitoring the relief association's financial transactions. Additionally, it negates the checks and balances necessary to detect and correct financial errors or irregularities in the relief association's accounting system. Finally, the bylaws authorization of the combined offices may result in the relief association conducting its affairs without proper authorization. The bylaws, therefore, are inconsistent with best business practices and the VFRA Act.

Recommendation: We recommend that the relief association officials ensure that there is adequate segregation of duties between the Relief Association's Secretary and Treasurer. We also recommend that the relief association officials review its accounting and internal control procedures to ensure that the duties being performed by the Secretary and Treasurer are sufficiently segregated so that relief association assets are adequately safeguarded. Finally, we recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act and properly authorize the operating procedures of 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 did not agree with the finding as presented at the audit exit conference and stated the positions were combined in or around calendar year 2013 due to concerns of potential fraud at the affiliated fire department/relief association. Relief officials also indicated that the municipality requested that the relief association combine the two positions.

CHAPMANVILLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Auditor's Conclusion: We understand the request by the municipalities to have the same person holding both positions and enumerating this officer; however, as stated in the criteria, prudent business practice dictates that the duties of the secretary and treasurer be sufficiently segregated and the adequate segregation of duties is the primary internal control intended to prevent or decrease the risk of potential misappropriation of assets. Furthermore, there is insufficient information and justification to support the relief association's position that combining the positions of secretary and treasurer would likely prevent fraud. On the contrary, combining these traditionally segregated roles, which are separate and distinct as a common course of prudent business practices, creates an atmosphere in which fraud is more likely to be perpetrated and remain undetected than when the roles are segregated. The Department is concerned that the relief association fails to see the importance of segregating the roles of treasurer and secretary and is electing to diverge from prudent business practices and requirements within the VFRA Act. Therefore, the finding remains as stated. Compliance will be subject to verification through our next audit.

Finding No. 3 – Failure To Obtain A Federal Tax Identification Number

Condition: The relief association failed to comply with the Tax Equity and Fiscal Responsibility Act by not obtaining a federal tax identification number. The relief association is inappropriately using a federal tax identification number that is issued jointly in both the names of the relief association and the affiliated fire service organization, although the fire service organization and the relief association are separate legal entities.

Criteria: All businesses, both profit and nonprofit, are required to obtain a federal tax identification number and provide this number to any financial institution where funds are earning interest. If their tax identification number is not provided, the financial institution is required to withhold 31 percent of interest earned and transmit these funds to the Internal Revenue Service, representing federal income taxes.

Cause: Relief association officials indicated that their accountant stated that since they were incorporated in both names, they are only required to have one, shared number.

Effect: Failure to comply with the Tax Equity and Fiscal Responsibility Act could cause the relief association to be penalized by the Internal Revenue Service, resulting in the loss of funds otherwise available for general operating expenditures or for investment purposes.

CHAPMANVILLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the relief association officials immediately apply for its own federal tax identification number through the Internal Revenue Service and furnish this number to its financial institutions. Relief association officials should also consider applying to the Internal Revenue Service for tax exempt status as a nonprofit corporation under Internal Revenue Code 501(c). 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 – Failure To Obtain A Pennsylvania Sales Tax Exemption Number

Condition: Despite being notified of this condition with verbal observations in prior audit periods, the relief association again failed to obtain a Pennsylvania sales tax exemption number. The relief association is currently using the fire service organization's sales tax exemption number, although the fire service organization and the relief association are separate legal entities. The relief association also paid \$7 of Pennsylvania sales tax to a vendor from which the relief association purchased equipment.

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 applied for their own number back in 2020 under both names and were told by the Department of Revenue that they had to apply for their own number. They stated that because of Covid-19, they were unable to get their questions and concerns answered due to offices being closed and then never followed up with it.

CHAPMANVILLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Effect: As a result of the relief association's failure to obtain a sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on its 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 obtain a 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.

CHAPMANVILLE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Charles J. McGarvey, Sr.
State Fire Commissioner

Chapmanville Volunteer Firemen's Relief Association Governing Body:

Mr. Roger Sterling
President

Mr. James Byers
Vice President

Ms. Jody Davison
Secretary/Treasurer

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

Ms. Joy S. Strain
Secretary
Troy Township

Ms. Jody L. Davison
Secretary
Plum 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.