

# COMPLIANCE AUDIT

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## Coal Township Volunteer Firemen's Relief Association Northumberland County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

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December 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. James Hoffman, Jr., President  
Coal Township Volunteer Firemen's  
Relief Association  
Northumberland County

We have conducted a compliance audit of the Coal Township Volunteer Firemen's Relief Association (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, 2017 to December 31, 2018.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the findings 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 required to be and was not 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.

We were not able to obtain an independent confirmation of the cash balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2018, the relief association had a cash balance of \$406,845, we were not able to verify this cash balance.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2017 to December 31, 2018:

- The relief association took appropriate corrective action to address one of the three findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this 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 – Noncompliance With Prior Audit Recommendation –  
Insufficient Surety (Fidelity) Bond Coverage

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure  
To Obtain A Pennsylvania Tax Exemption Number and  
Payment Of Pennsylvania Sales Tax

Finding No. 3 – Failure To Conduct Annual Physical Equipment Inventories

Finding No. 4 – Relief Association Cash Accounts And CD Inappropriately  
Registered Under Two Federal Tax Identification Numbers

The four findings contained in this report cite conditions that existed in the operation of the relief association during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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.

November 25, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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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. Relief association bylaws define the specific operational procedures by which relief associations conduct 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 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.

**BACKGROUND – (Continued)**

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

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>
Coal Township	Northumberland	\$38,700	\$35,262

The volunteer firefighters' relief association and the affiliated fire service organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

- Brady Fire Company
- Coal Township Rescue
- East End Fire Company
- Fairview Fire Company
- Forest Hill Fire Company
- Maine Fire Company
- Union Fire Company

COAL TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with one of the three prior audit findings and recommendations, as follows:

- Failure To Monitor Investment Activity

By receiving the \$80,814 from the Bureau of Unclaimed Property with the Pennsylvania Department of Treasury.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with two of the three prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Insufficient Surety (Fidelity) Bond Coverage
- Failure To Obtain A Pennsylvania Sales Tax Exemption Number and Payment of Pennsylvania Sales Tax

We are concerned by the relief association's failure to correct those previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.



COAL TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage**

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$400,000; however, as of December 31, 2018, the relief association's cash assets totaled \$406,845.

A similar condition was noted in our four prior audit reports.

Criteria: Section 7415(c)(4) of Act 118 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: Even though notified of this condition in our prior four audits, the relief association officials again neglected to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

Effect: As a result of the authorized disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We again recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

COAL TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Obtain A Pennsylvania Sales Tax Exemption Number and Payment Of Pennsylvania Sales Tax**

Condition: The relief association failed to obtain a Pennsylvania sales tax exemption number. The relief association has paid sales tax totaling \$1,615 during the prior audit periods, and \$916 during the current audit period.

A similar condition was noted in our four prior audit reports.

Criteria: Section 7415(e) of Act 118 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: Even though notified of this condition during our four prior audits, the relief association officials again neglected to obtain its own sales tax exemption number from the Department of Revenue.

Effect: As a result of the relief association's continued 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 again 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.

COAL TOWNSHIP VOLUNTEER FIREMEN'S 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

**Finding No. 3 – Failure To Conduct Annual Physical Equipment Inventories**

Condition: As cited as a verbal observation in our prior audit, the relief association officials failed to conduct annual physical inventories of equipment and ensure such inventory accounted for all equipment owned by the relief association.

Criteria: Sound business practice dictates that annual inventories are conducted to ensure the accuracy of the relief association's equipment roster.

Cause: Even though notified of this condition during our prior audit, relief association officials failed to establish adequate internal control procedures to ensure the performance of annual physical equipment inventories.

Effect: The failure to perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association owned equipment.

Recommendation: We recommend that the relief association officials ensure they perform an annual physical inventory of all operable equipment and that the completion of the inventories be sufficiently documented. 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.

COAL TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – Relief Association Cash Accounts And CD Inappropriately Registered Under Two Federal Tax Identification Numbers**

Condition: As cited in a verbal observation in our prior audit, as of December 31, 2018, the relief association held Checking and Money Market accounts and a CD, with a total cost value of \$527,795, which were inappropriately registered under two federal tax identification numbers issued in the name of the relief association rather than under a single and most recently assigned relief association federal tax identification number.

Criteria: Prudent business practice dictates that the relief association maintain ownership of all investments as a means of safeguarding its assets from unauthorized use or disposition under a single federal tax identification number.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that the investments purchased were registered with the relief association's most recently issued/assigned federal tax identification number.

Effect: As a result of the investments being inappropriately registered under two federal tax identification numbers, these relief association assets were not properly safeguarded.

Recommendation: We recommend that the relief association officials secure ownership rights to all monetary assets under one federal tax identification number. This requirement can be accomplished by ensuring that all investments are registered under the relief association's most recently assigned 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 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.

COAL TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2018

Cash	\$ 406,845
Fair Value of Investments	<u>120,950</u>
Total Cash and Investments	<u>\$ 527,795</u>

COAL TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 10,458
Fire Services:	
Equipment purchased	\$ 92,302
Equipment maintenance	11,784
Training expenses	1,609
Fire prevention materials	2,075
Total Fire Services	\$ 107,770
Administrative Services:	
Officer compensation	\$ 1,000
Other administrative expenses	134
Bond premiums	532
Total Administrative Services	\$ 1,666
Other Expenditures:	
Unauthorized expenditures (PA Sales Tax)	\$ 916
Total Expenditures	\$ 120,810

COAL TOWNSHIP 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

Coal Township Volunteer Firemen's Relief Association Governing Body:

**Mr. James Hoffman, Jr.**  
President

**Mrs. Cheryl D. Hoffman**  
Secretary

**Mr. David Mrozowski**  
Treasurer

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

**Mr. Robert M. Slaby, Jr.**  
Secretary  
Coal 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).