

COMPLIANCE AUDIT

Coral-Graceton Volunteer Firemen's Relief Association

Indiana County, Pennsylvania

For the Period

January 1, 2019, to December 31, 2021

April 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Gary Alsop, President
Coral-Graceton Volunteer Firemen's
Relief Association
Indiana County

We have conducted a compliance audit of the Coral-Graceton 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 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.

We were not able to obtain an independent confirmation of the investment balance directly from the financial institution. Therefore, while the relief association provided copies of investment statements that indicated that, as of December 31, 2021, the relief association had an investment balance with a fair value of \$35,846, we were not able to verify this investment balance.

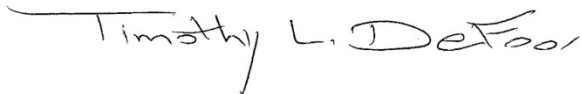
Based on our audit procedures, we conclude that, because of the significance of the matter described in Finding No. 1 below and discussed later in this report and the effects, if any, of the matter described in the preceding paragraph, the relief association did not, in all significant respects, comply 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, collectively as a whole, for the period January 1, 2019, to December 31, 2021. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Inappropriate Ownership Of Rescue Vehicle

Finding No. 2 – Inadequate Signatory Authority For The Disbursement Of Funds

Finding No. 3 – 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
March 8, 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.

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 municipality:

Municipality	County	2019	2020	2021
Center Township	Indiana	\$7,867	\$8,011	\$7,135

Based on the relief association’s records, its total cash and investments as of December 31, 2021, were \$51,035, as illustrated below:

Cash	\$ 15,189
Fair Value of Investments	35,846
Total Cash and Investments	\$ 51,035

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2021, were \$28,394, 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:

Fire Services:	
Equipment purchased	\$ 25,134
Training expenses	1,750
Total Fire Services	\$ 26,884
Administrative Services:	
Bond premiums	\$ 212
Other administrative expenses	104
Total Administrative Services	\$ 316
Other Expenditures:	
Payments on loan	\$ 1,194
Total Expenditures	\$ 28,394

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:

Coral-Graceton Volunteer Fire Company

CORAL-GRACETON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inappropriate Ownership Of Rescue Vehicle

Condition: In accordance with an agreement dated May 31, 2004, the affiliated fire company transferred all ownership rights of a 1996 Freightliner Rescue to the relief association which had an original value of \$192,500, in exchange for the relief association making annual payments towards the vehicle until the year 2017. The relief association paid \$130,000 of the original value of the vehicle. A vehicle title was never provided to our department and a relief association officer stated that the vehicle is titled in the name of the affiliated fire company and never changed into the name of the relief association; however, a title could not be located.

Criteria: Prudent business practice dictates that the relief association should maintain sole ownership of all equipment purchased by the relief association. As such, rescue vehicles purchased and/or donated to the relief association are to be titled in the name of the relief association.

Cause: The relief association officials stated that they were unaware that the title needed to be solely in the relief association's name.

Effect: As a result of the rescue vehicle being inappropriately titled in the name of the fire company, this relief association asset was not properly safeguarded. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the 1996 Freightliner Rescue vehicle be titled in the name of the relief association. If such action is not taken, we recommend that the relief association be reimbursed \$130,000. 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: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

CORAL-GRACETON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 12 checks out of 16 checks, and 13 checks out of 13 checks in the post audit period, drawn on the relief association's checking account that only contained the signature of one officer (the Treasurer of the relief association), even though two signatures are required by the VFRA Act and the relief association's bylaws. Issuing checks without the signature of a second authorized relief association officer negates the relief association's internal control over the disbursement process.

Criteria: Section 7415(c)(3) of the VFRA Act states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

In addition, the relief association's bylaws at Article V, Section 6 states, in part:

The duties of the President shall be to preside over all meetings of the general membership and the Board of Directors; to preserve order and decorum therein; to sign all orders on the Treasurer after they are signed by the secretary.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: The relief association officials did not realize that two signatures were necessary on all relief association disbursements.

Effect: As a result of the relief association officers issuing checks with only one signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

CORAL-GRACETON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two relief association officers, one of whom shall be the Treasurer, are included on all relief association negotiable instruments as defined by the VFRA Act and the relief association's bylaws. 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. 3 – Failure To Obtain A Pennsylvania Sales Tax Exemption Number

Condition: As cited as a verbal observation in the prior two audit periods, the relief association 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.

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: The relief association officials did not provide a reason why this occurred despite being verbally notified of this condition during our prior audit.

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.

CORAL-GRACETON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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.

CORAL-GRACETON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action may not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 316E Finance Building, Harrisburg, PA 17120.

CORAL-GRACETON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Coral-Graceton Volunteer Firemen's Relief Association Governing Body:

Mr. Gary Alsop
President

Mr. Logan Dellafiora
Secretary

Mr. Evan Bertig
Treasurer

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

Ms. Sarah Smith
Secretary
Center 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.