

COMPLIANCE AUDIT

Dushore Firemen's Relief Association of the State of Pennsylvania Sullivan County For the Period January 1, 2018 to December 31, 2020

February 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Robert Wells, President
Dushore Firemen's Relief Association
of the State of Pennsylvania
Sullivan County

We have conducted a compliance audit of the Dushore Firemen's Relief Association of the State of Pennsylvania (relief association) for the period January 1, 2018 to December 31, 2020. 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, 35 Pa.C.S. § 7411 *et seq.* ("VFRA Act"), as most recently amended by Act 91 of 2020.

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, 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.

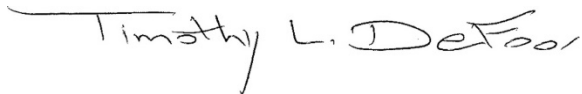
Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2020:

- The relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding 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 – Inadequate Signatory Authority For The Disbursement Of Funds

Finding No. 2 – 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
January 11, 2022

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Background..... | 1 |
| Status of Prior Findings | 4 |
| Findings and Recommendations: | |
| Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Signatory Authority For The Disbursement Of Funds | 5 |
| Finding No. 2 – Failure To Obtain A Pennsylvania Sales Tax Exemption Number | 6 |
| Report Distribution List | 8 |

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>2018</u> | <u>2019</u> | <u>2020</u> |
|---------------------|---------------|-------------|-------------|-------------|
| Cherry Township | Sullivan | \$4,066 | \$4,333 | \$4,344 |
| Colley Township | Sullivan | \$3,020 | \$3,175 | * |
| Dushore Borough | Sullivan | \$2,810 | \$3,027 | \$3,073 |
| Forks Township | Sullivan | \$1,715 | \$1,889 | \$1,878 |

* Although Colley Township prepared and returned a Certification Form AG 385 after the March 31 annual filing date for 2020 and 2021, the township did not distribute the 2020 and 2021 state aid allocations to any relief association providing fire service to the municipality. The foreign fire insurance tax allocations were distributed to the municipal treasurer on September 22, 2020 and September 21, 2021, respectively; however, the municipality did not forward the state aid allocations to an eligible relief association within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); and therefore, those funds were not available to a relief association for general operating expenses or for investment purposes. Colley Township should allocate the 2020 and 2021 state aid funds immediately to an eligible relief association or contact the Municipal Pension and Fire Relief Programs Unit at 1-800-882-5073 or e-mail Comptroller@PaAuditor.gov to initiate the return of the state aid funds.

As soon as the 2020 and 2021 state aid allocations are distributed to a relief association, Colley Township is still required to complete a 2020 and 2021 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) as soon as possible.

BACKGROUND – (Continued)

Based on the relief association's records, its total cash and investments as of December 31, 2020 were \$26,183, as illustrated below:

| | |
|----------------------------|------------------|
| Cash | \$ 25,183 |
| Fair Value of Investments | <u>1,000</u> |
| Total Cash and Investments | <u>\$ 26,183</u> |

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$56,417, 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>\$ 8,094</u> |
| Fire Services: | |
| Equipment purchased | \$ 42,314 |
| Equipment maintenance | <u>4,644</u> |
| Total Fire Services | <u>\$ 46,958</u> |
| Administrative Services: | |
| Other administrative expenses | \$ 865 |
| Bond premiums | <u>500</u> |
| Total Administrative Services | <u>\$ 1,365</u> |
| Total Expenditures | <u>\$ 56,417</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:

Dushore Fire Company

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

DUSHORE FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF PENNSYLVANIA
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Unauthorized Expenditure

By receiving reimbursement of \$1,409 from the affiliated fire company for the unauthorized expenditure made in the prior audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Finding and Recommendation section of this report:

- Inadequate Signatory Authority For The Disbursement Of Funds

We are concerned by the relief association's failure to correct this previously reported audit finding. The relief association management should strive to implement the recommendation and corrective action noted in this audit report.

DUSHORE FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified six out of 20 checks drawn on the relief association's checking account that only contained the signature of one officer (either the previous or current Relief Association Treasurer), even though two signatures are required by the VFRA Act and the relief association's bylaws. Issuing checks with the signature of only one relief association officer negates the relief association's internal control over the disbursement process.

A similar condition was noted in our prior audit report.

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 6, Section 4 states, in part:

The Treasurer shall countersign with the Secretary and the President all written obligations that bind the Association and all negotiable instruments.

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 current Treasurer was unaware of the need for the two signatures.

Effect: As a result of the relief association officer 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.

DUSHORE FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Condition: As cited as a verbal observation in prior audits, 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 for why this occurred despite the relief association being notified of this condition verbally during prior audits.

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.

DUSHORE FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

DUSHORE FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Thomas Cook
Acting State Fire Commissioner

Dushore Firemen's Relief Association of the State of Pennsylvania Governing Body:

Mr. Robert Walsh
President

Mr. Todd Wells
Vice President

Mr. Terrence Rogan
Secretary

Ms. Misty Vandine
Treasurer

DUSHORE FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

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

Ms. Diane Fitzgerald
Secretary
Cherry Township

Ms. Tori Stasiak
Secretary
Colley Township

Ms. Ellen M. Chase
Secretary
Dushore Borough

Ms. Anita Chase
Secretary
Forks 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.