

COMPLIANCE AUDIT

The Volunteer Firemen's Relief Association of Friendship Fire Company No. 2 of Mohnton, Berks County, Pennsylvania

For the Period
January 1, 2020, to December 31, 2022

October 2023



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**

Ms. Ann Bortz, President
The Volunteer Firemen's Relief Association
of Friendship Fire Company No. 2 of
Mohnton, Berks County, Pennsylvania

We have conducted a compliance audit of The Volunteer Firemen's Relief Association of Friendship Fire Company No. 2 of Mohnton, Berks County, Pennsylvania (relief association) for the period January 1, 2020, 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 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.

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, 2022, the relief association had a cash balance of \$11,777, 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, 2020, to December 31, 2022:

- 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 – Failure To Maintain A Complete And Accurate Equipment Roster

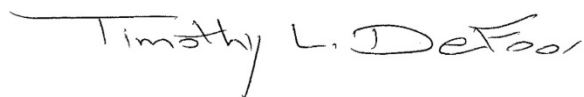
Finding No. 2 – Untimely Deposit Of State Aid

Finding No. 3 – Unauthorized Expenditures And Potential Fraud Charges

Finding No. 4 – Payment Of Pennsylvania Sales Tax

We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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
September 14, 2023

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	4
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster	5
Finding No. 2 – Untimely Deposit Of State Aid.....	6
Finding No. 3 – Unauthorized Expenditures And Potential Fraud Charges	8
Finding No. 4 – Payment Of Pennsylvania Sales Tax	10
Report Distribution List	11

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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Mohnton Borough	Berks	\$15,256	\$13,676	\$16,313*

* The 2022 state aid allocation received from Mohnton Borough was not deposited by the relief association until January 25, 2023, as disclosed in Finding No. 2 in this report.

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, 2022, was \$11,777, as illustrated below:

Cash	<u>\$ 11,777</u>
------	------------------

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$48,799, 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	\$ 8,351
Relief benefits	2,534
Tokens of sympathy and goodwill	<u>236</u>
Total Benefit Services	<u>\$ 11,121</u>
Fire Services:	
Equipment purchased	\$ 28,890
Equipment maintenance	4,148
Training expenses	<u>2,418</u>
Total Fire Services	<u>\$ 35,456</u>
Administrative Services:	
Bond premiums	\$ 750
Other administrative expenses	<u>622</u>
Total Administrative Services	<u>\$ 1,372</u>
Other Expenditures:	
Unauthorized sales tax paid – See Finding No. 4	\$ 371
Unauthorized expenditures – See Finding No. 3	<u>479</u>
Total Other Expenditures	<u>\$ 850</u>
Total Expenditures	<u>\$ 48,799</u>

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:

Friendship Fire Company No. 2

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF FRIENDSHIP FIRE
COMPANY NO. 2 OF MOHNTON, BERKS COUNTY, 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:

- Inadequate Relief Association Bylaws

By revising the relief association bylaws to meet the minimum requirements of the VFRA Act.

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 Findings and Recommendations section of this report.

- Failure To Maintain A Complete And Accurate Equipment Roster

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.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF FRIENDSHIP FIRE
COMPANY NO. 2 OF MOHNTON, BERKS COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain
A Complete And Accurate Equipment Roster**

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit, this listing was incomplete and did not accurately identify all of the equipment owned by the relief association. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

A similar condition was noted in our prior audit report.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

Cause: The relief association officials stated that updated files may have been deleted from their computer; however, they were working on making their equipment roster complete.

Effect: The continued failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF FRIENDSHIP FIRE
COMPANY NO. 2 OF MOHNTON, BERKS COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory 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: 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 – Untimely Deposit Of State Aid

Condition: The relief association did not deposit the 2022 state aid allocation it received from Mohnton Borough, in the amount of \$16,313, until January 25, 2023. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2022, who forwarded this state aid to the relief association on October 5, 2022, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF FRIENDSHIP FIRE
COMPANY NO. 2 OF MOHNTON, BERKS COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: The relief association officials waited to deposit their state aid allocation until new accounts were opened at a different financial institution due to the ongoing fraud investigation affecting their current cash accounts.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely deposit of all future income received. 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.

THE VOLUNTEER FIREMEN’S RELIEF ASSOCIATION OF FRIENDSHIP FIRE
COMPANY NO. 2 OF MOHNTON, BERKS COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Unauthorized Expenditures And Potential Fraud Charges

Condition: In August and September of 2022, both checking accounts of the relief association encountered numerous EFT withdrawals that were not recognizable expenditures. Relief association officials filed claims with their financial institution to dispute the charges. As a result, \$1,546 of the \$1,928 was reimbursed back into the relief association accounts that was disputed. The relief association has not received reimbursement for the following charges:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
08/31/2022	EFT	Unknown charge	\$ 10
09/02/2022	EFT	Unknown charge	12
09/02/2022	EFT	Unknown charge	8
09/06/2022	EFT	Unknown charge	6
09/06/2022	EFT	Unknown charge	100
09/12/2022	EFT	Unknown charge	76
09/19/2022	EFT	Unknown charge	40
09/19/2022	EFT	Unknown charge	5
09/19/2022	EFT	Unknown charge	29
09/20/2022	EFT	Unknown charge	39
09/26/2022	EFT	Unknown charge	57
Total			<u>\$ 382</u>

In addition, on June 1, 2021, the relief association also expended \$97 for cigars and a humidor for a token of sympathy that is not authorized by the VFRA Act.

Criteria: Section 7416(f) of the VFRA Act states:

The funds of any volunteer firefighters’ relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

- (5) To pay the cost of procuring and forwarding tokens of sympathy and goodwill to a volunteer firefighter who may be ill or hospitalized as a result of participation in the fire service or who may die or who may be seriously ill for any reason.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF FRIENDSHIP FIRE
COMPANY NO. 2 OF MOHNTON, BERKS COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service, including necessary training.

In addition, Section 7418(b) of the VFRA Act states:

- (b) Findings -- If the Auditor General finds that money received by a volunteer firefighters' relief association has been expended for a purpose other than one authorized by this subchapter, the commissioner, upon receiving notice of the finding from the auditor general, shall decline to approve payment to the volunteer firefighters' relief association until the improperly expended amount has been reimbursed to the relief association fund.

Costs associated with fraudulent activity and this type of token of sympathy do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

Cause: The relief association officials indicated that they were unaware of the charges made to the accounts until bank statements were received and examined. Once aware, relief association officials contacted their financial institution for further assistance. In addition, they were unaware that the token of sympathy was not an allowable expense.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by the VFRA Act. In addition, because of stipulations within the VFRA Act, failure to obtain reimbursement of the improperly expended funds will result in a withholding of future state aid fund disbursements until the improperly expended fire relief association monies identified in the finding have been reimbursed to the relief association.

Recommendation: We recommend that the relief association be reimbursed \$479 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of the VFRA Act to aid them in determining the propriety of future expenditures. All supporting documentation verifying the receipt of reimbursement for unauthorized expenditures should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 316-E Finance Building, Harrisburg, PA 17120. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF FRIENDSHIP FIRE
COMPANY NO. 2 OF MOHNTON, BERKS COUNTY, PENNSYLVANIA
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.

Finding No. 4 – Payment Of Pennsylvania Sales Tax

Condition: The relief association paid \$371 of Pennsylvania sales tax to various vendors from which the relief association made purchases. These payments would not have been required if the relief association had provided its sales tax exemption number to the vendors.

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 were unaware of the necessity to provide their state sales tax exemption number to all vendors from which the relief association makes purchases.

Effect: As a result of the relief association's failure to provide its sales tax exemption number to all vendors, the relief association was required to pay Pennsylvania sales tax on its purchases, which reduced the funds otherwise available for general operating expenditures and for investment purposes.

Recommendation: We recommend that the relief association officials seek a refund of the sales tax paid, in the amount of \$371, by filing an appeal form (REV-65BA) with the Pennsylvania Department of Revenue's Board of Appeals. In addition, we recommend that, in the future, relief association officials furnish its state sales tax exemption number to all vendors from which 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.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF FRIENDSHIP FIRE
COMPANY NO. 2 OF MOHNTON, BERKS COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Volunteer Firemen's Relief Association of Friendship Fire Company No. 2 of Mohnton,
Berks County, Pennsylvania Governing Body:

Ms. Ann Bortz
President

Mr. Andrew Gruver
Vice President

Ms. Katherine Witmoyer
Secretary

Mr. Matthew Martin
Treasurer

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

Ms. Loretta Imbody
Secretary
Mohnton Borough

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.