

COMPLIANCE AUDIT

Montrose Volunteer Fireman's Relief Association

Susquehanna County, Pennsylvania

For the Period

January 1, 2019, to December 31, 2021

January 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**

Mr. Ryan Coy, President
Montrose Volunteer Fireman's
Relief Association
Susquehanna County

We have conducted a compliance audit of the Montrose Volunteer Fireman'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.

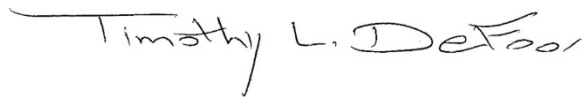
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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.

Based on our audit procedures, we conclude that, for the period January 1, 2019, to December 31, 2021, 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 – Relief Association Federal Tax Identification Number Is Not Registered On Relief Association’s Accounts

Finding No. 2 – Failure To Disclose Related Party Transaction

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a horizontal line above the first name.

Timothy L. DeFoor
Auditor General
December 12, 2022

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Relief Association Federal Tax Identification Number Is Not Registered On Relief Association’s Accounts	4
Finding No. 2 – Failure To Disclose Related Party Transaction	4
Report Distribution List	6

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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Bridgewater Township	Susquehanna	\$18,834	\$18,828	\$16,444
Dimock Township	Susquehanna	\$ 3,140	\$ 3,147	\$ 2,779
Franklin Township	Susquehanna	\$ 2,770	\$ 2,954	\$ 2,545
Jessup Township	Susquehanna	\$ 1,627	\$ 1,646	\$ 1,512
Montrose Borough	Susquehanna	\$ 7,877	\$ 7,940	\$ 7,047

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 and investments as of December 31, 2021, were \$278,478, as illustrated below:

Cash	\$ 104,456
Fair Value of Investments	<u>174,022</u>
Total Cash and Investments	<u>\$ 278,478</u>

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2021, were \$102,106, 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>\$ 26,692</u>
Fire Services:	
Equipment purchased	\$ 42,545
Equipment maintenance	23,858
Training expenses	<u>3,860</u>
Total Fire Services	<u>\$ 70,263</u>
Administrative Services:	
Bond premiums	\$ 300
Officer compensation	650
Other administrative expenses *	<u>2,517</u>
Total Administrative Services	<u>\$ 3,467</u>
Total Investments Purchased	<u>\$ 1,684</u>
Total Expenditures	<u>\$ 102,106</u>

* A majority of the other administrative expenses represent \$2,000 expended in calendar year 2019 for the payment of two-years office space rent.

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:

United Fire Company

MONTROSE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Relief Association Federal Tax Identification Number Is Not Registered On Relief Association's Accounts

Condition: As of December 31, 2021, the relief association held cash accounts with a total cost value of \$104,456 and a brokerage account with a total investment cost value of \$174,022, which were inappropriately registered under a federal tax identification number that could not be verified. These cash and brokerage accounts represent 100 percent of the relief association's total monetary assets.

Criteria: Prudent business practice dictates that the relief association maintain ownership of all cash and investments as a means of safeguarding its assets from unauthorized use or disposition.

Cause: The relief association officials indicated that a federal tax identification number listed on the relief association's Pennsylvania sales tax exemption certificate was currently registered to the accounts instead of the federal tax identification number issued to the relief by the IRS.

Effect: As a result of the cash and investment accounts not being registered under the current relief association federal tax identification number, these relief association assets were not properly safeguarded.

Recommendation: We recommend that the relief association officials take action to immediately secure ownership rights to all monetary assets. This requirement can be accomplished by ensuring that all cash and investment accounts are registered under the relief association's 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.

Finding No. 2 – Failure To Disclose Related Party Transaction

Condition: Relief association officials failed to disclose a related party transaction to the relief association membership. The relief association did business with a local vendor owned by a relief association officer. During the current audit period, the relief association expended \$23,725 with this vendor for equipment and equipment maintenance.

MONTROSE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

A related party transaction occurs when the relief association does business with a vendor that employs or is owned by a relief association officer or a member of an officer's immediate family. Such a transaction may provide a less than arm's length financial benefit to such officer or member of such officer's immediate family through a commission or a profit from a sale.

Criteria: Best business practices dictate that all potential related party transactions should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, all officers and/or members involved with a business that is party to the related party transaction should abstain from all votes concerning such transactions.

Cause: Relief association officials indicated that they were unaware that related party transactions should be disclosed to the membership.

Effect: The failure to properly disclose related party transactions may create potential conflicts of interest which could result in the relief association being involved in less than arm's length financial transactions.

Recommendation: We recommend that the relief association officials take the actions necessary to eliminate the appearance of conflicts of interests. Actions should include, but are not limited to, written notification to the relief association membership for each related party transaction, and the abstention from decisions and voting rights by the relief association officials who are involved owners of businesses that have business dealings with the relief association. These actions should be documented in the relief association's minutes. Furthermore, the relief association officials should closely review all related party transactions to ensure that all transactions are at arm's length, i.e., the cost of the services rendered by the firm is competitive.

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.

MONTROSE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Montrose Volunteer Fireman's Relief Association Governing Body:

Mr. Ryan Coy
President

Mr. Paul Johnson
Vice President

Mr. Dillan Van Nostrand
Secretary

Mr. Michael Rosin
Treasurer

MONTROSE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Ms. Connie Ely
Secretary
Bridgewater Township

Ms. Esther Rayias
Secretary
Dimock Township

Ms. Jeanne Sullivan
Secretary
Franklin Township

Ms. Janis Bunnell
Secretary
Jessup Township

Ms. Lillian Senko
Secretary
Montrose 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.