

COMPLIANCE AUDIT

Mount Morris Community Volunteer Firemen's Relief Association

Greene County, Pennsylvania

For the Period

January 1, 2020, to December 31, 2022

March 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Jeffrey Phillips, President
Mount Morris Community Volunteer
Firemen's Relief Association
Greene County

We have conducted a compliance audit of the Mount Morris Community Volunteer Firemen's Relief Association (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 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 association 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.

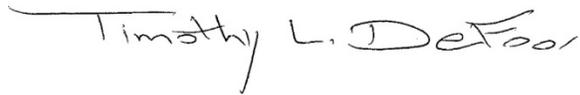
Based on our audit procedures, we conclude that, for the period January 1, 2020, to December 31, 2022, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Failure To Monitor Investment Activity

Finding No. 2 – Inadequate Minutes Of Meetings And Relief Association Bylaws

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
February 20, 2024

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Failure To Monitor Investment Activity.....	3
Finding No. 2 – Inadequate Minutes Of Meetings And Inadequate Relief Bylaws.....	4
Finding No. 3 – Failure To Obtain A Pennsylvania Sales Tax Exemption Number	6
Report Distribution List	7

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 relief association officers therefore have a responsibility to the public to conduct the relief association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all relief association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the relief 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>2020</u>	<u>2021</u>	<u>2022</u>
Perry Township	Greene	\$9,652	\$8,151	\$9,590
Whiteley Township	Greene	\$2,194	\$1,953	\$2,274

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, 2022, were \$54,352, as illustrated below:

Cash	\$ 26,587
Fair Value of Investments	<u>27,765</u>
Total Cash and Investments	<u>\$ 54,352</u>

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$24,246, 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>\$ 7,276</u>
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Fire Services:

Equipment purchased	\$ 13,704
Equipment maintenance	2,025
Training expenses	160
Total Fire Services	<u>\$ 15,889</u>

Administrative Services:

Bond premiums	\$ 1,066
Other administrative expenses	15
Total Administrative Services	<u>\$ 1,081</u>

Total Expenditures	<u>\$ 24,246</u>
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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:

Mount Morris Community Volunteer Fire Company

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

MOUNT MORRIS COMMUNITY VOLUNTEER FIREMEN'S RELIEF
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Monitor Investment Activity

Condition: Relief association officials failed to monitor their investment activity. Specifically, on March 9, 2022, a certificate of deposit was considered dormant and was escheated to the Pennsylvania Department of Treasury. As of the last account statement dated March 9, 2022, the stated value of the investment amounted to \$20,127 and the reported value by the Pennsylvania Department of Treasury amounted to \$20,135. The relief association was unaware of this condition prior to the conduct of this engagement.

Criteria: The relief association's governing body has ultimate authority and the fiduciary responsibility for the financial management of relief association's funds which includes an obligation to monitor the activity of relief association's investments on a periodic basis which is a prerequisite for sound administration of relief association accounts.

Cause: The relief association official indicated that he was a new officer and was unaware of the escheated funds.

Effect: The relief association's failure to adequately monitor investment activity resulted in a potential loss of funds to pay general operating expenses or for other investment purposes and any future interest income from this investment.

Recommendation: We recommend the relief association contact the Bureau of Unclaimed Property with the Pennsylvania Department of Treasury to obtain the funds from their dormant custodial investment account. In addition, the management of the relief association should monitor all future investments to ensure they are maximizing their investment return and safeguarded from loss. 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. Documentation was presented that the escheated funds in the amount of \$20,135 were returned to the relief association from the Pennsylvania Department of Treasury and deposited into the relief association account on August 21, 2023.

Auditor's Conclusion: We reviewed documentation that the escheated funds in the amount of \$20,135 were received. Compliance for escheated funds will be subject to verification through our next audit.

MOUNT MORRIS COMMUNITY VOLUNTEER FIREMEN'S RELIEF
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Minutes Of Meetings And Relief Association Bylaws

Condition: The relief association failed to maintain detailed minutes of meetings as required by the VFRA Act and the relief association's bylaws. Specifically, the relief association's minutes did not address all financial-related transactions that occurred during the audit period. All minutes of meetings were provided for the years 2021 and 2022; however, the relief association failed to maintain and/or provide minutes of meetings for the year 2020. In addition, the meeting minutes were not signed and dated by the recording officer. Furthermore, the existing bylaws of the relief association contains language to conduct business pertaining to the disbursement, investment, and purchase of funds that is based on Act 84 of June 11, 1968. The relief association has not updated the bylaws to govern their organization to meet the requirements set forth in the VFRA Act.

Criteria: Section 7415(a) of the VFRA Act states, in part, that the relief association:

. . . must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

The relief association's bylaws at Article II, Section 1 states:

Regular meetings of this association shall be held on the first Friday of each month immediately following the regular meeting of the Mount Morris Community Volunteer Fire Company. Ten members shall constitute a quorum.

In addition, the relief association's bylaws at Article V, Section 1 states:

Funds of this association shall not be expended for any purpose other than those authorized by the provisions of Act 84 and the association bylaws. All expenditures must be approved by a majority vote at an association meeting and duly recorded in the minutes.

Furthermore, the relief association's bylaws at Article VI, Section 1 states, in part:

Funds of this association may be invested in any security authorized by the provisions of Section 6 (c) of Act 84.

MOUNT MORRIS COMMUNITY VOLUNTEER FIREMEN'S RELIEF
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Finally, the relief association's bylaws at Article VI, Section 3 states, in part:

Secretary: The Secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note authorization by the membership of all association financial transactions and all other pertinent business discussed at meetings. The Secretary shall also maintain an updated copy of the association bylaws and make it available for review by the membership. The Secretary is responsible for providing representatives of the Department of the Auditor General with the association's minutes of meetings and bylaws in connection with their auditing duties.

Cause: The relief association official indicated that the prior secretary resigned and failed to turn over 2020 minutes of meetings. The relief association officials did not provide a reason why meeting minutes were not signed and dated or why the bylaws were not updated to meet the requirements of the VFRA Act.

Effect: Without holding regular meetings and maintaining detailed minutes of meetings that are signed and dated, evidence that relief association business was presented before the membership for approval does not exist. As a result of the relief association not updating the bylaws to meet the appropriate requirements, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials hold all required meetings and maintain detailed minutes of meetings as required by the VFRA Act and the relief association's bylaws, evidencing the discussion and approval of all financial-related business conducted by the relief association. The minutes should include an adequate record of all financial-related business conducted by the relief association. We also recommend that the relief association officials ensure that all meeting minutes are signed and dated by the Secretary of the Relief Association to ensure the validity of the meeting minutes. In addition, we recommend that the relief association officials remove the language referring to Act 84 by updating the bylaws governing their organization so that the bylaws meet the requirements set forth in 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: Compliance will be subject to verification through our next audit.

MOUNT MORRIS COMMUNITY VOLUNTEER FIREMEN'S RELIEF
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Obtain A Pennsylvania Sales Tax Exemption Number

Condition: As cited as a verbal observation in previous 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: Relief association officials indicated that they were unaware of the necessity to obtain its own sales tax exemption number from the Department of Revenue.

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.

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.

MOUNT MORRIS COMMUNITY VOLUNTEER FIREMEN'S RELIEF
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mount Morris Community Volunteer Firemen's Relief Association Governing Body:

Mr. Jeffrey Phillips
President

Mr. Shawn Sampson
Vice President

Mr. Douglas Delaney
Treasurer

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

Ms. Christine K. Jarrell
Secretary
Perry Township

Ms. Janice M. Carroll
Secretary
Whiteley 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.