

# COMPLIANCE AUDIT

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## Prompton Fire & Rescue Relief Association Unit

Wayne County, Pennsylvania

For the Period

January 1, 2019, to December 31, 2021

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December 2022



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR  
AUDITOR GENERAL

Mr. Gene Mohrmann, President  
Prompton Fire & Rescue Relief  
Association Unit  
Wayne County

We have conducted a compliance audit of the Prompton Fire & Rescue Relief Association Unit (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 objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding 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 a portion 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 \$90,675, we were not able to verify a portion of this investment balance.

Based on our audit procedures, we conclude that, for the period January 1, 2019, to December 31, 2021:

- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below, and discussed in the Status of Prior Finding section of this report.
- Except for the effects, if any, of the matter described in the preceding paragraph, 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.

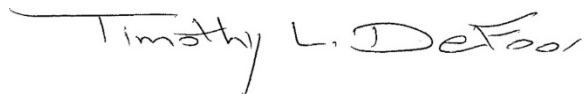
Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Untimely Receipt And Deposit Of State Aid

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Inadequate Surety (Fidelity) Bond Coverage

Finding No. 4 – Failure To Obtain A Federal Tax Identification 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  
October 18, 2022

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## BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code<sup>1</sup>, and the Volunteer Firefighters' Relief Association Act<sup>2</sup> ("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 Law<sup>3</sup> (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.

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<sup>1</sup> 72 P.S. § 403 (as last amended by Act 44 of 2017).

<sup>2</sup> 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

<sup>3</sup> 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>2019</u>	<u>2020</u>	<u>2021</u>
Canaan Township	Wayne	\$6,172	\$6,280	\$5,540
Cherry Ridge Township	Wayne	\$3,294	\$3,320	\$2,886
Dyberry Township	Wayne	\$3,466	\$3,473	\$2,999 *
Prompton Borough	Wayne	\$1,321	\$1,334	\$1,143

\* The 2021 state aid allocation received from Dyberry Township was not deposited by the relief association until March 30, 2022, as disclosed in Finding No. 1 in this report.

Based on the relief association’s records, its total cash and investments as of December 31, 2021, were \$198,674, as illustrated below:

Cash	\$ 107,999
Fair Value of Investments	<u>90,675</u>
Total Cash and Investments	<u><u>\$ 198,674</u></u>

## BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2021, were \$15,758, 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.<sup>4</sup> **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>\$ 3,442</u>
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#### Fire Services:

Equipment purchased	\$ 2,790
Equipment maintenance	1,099
Training expenses	<u>730</u>
Total Fire Services	<u>\$ 4,619</u>

#### Administrative Services:

Bond premiums	\$ 302
Other administrative expenses	<u>20</u>
Total Administrative Services	<u>\$ 322</u>

#### Other Expenditures:

Unauthorized expenditures	<u>\$ 7,375</u>
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Total Expenditures	<u><u>\$ 15,758</u></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:

Prompton Fire & Rescue Unit

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

PROMPTON FIRE & RESCUE RELIEF ASSOCIATION UNIT  
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with the following prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Untimely Receipt And Deposit Of State Aid

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.



PROMPTON FIRE & RESCUE RELIEF ASSOCIATION UNIT  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Untimely Receipt And Deposit Of State Aid**

Condition: The relief association did not deposit the 2021 state aid allocation it received from Dyberry Township, in the amount of \$2,999, until March 30, 2022. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2021; however, municipal officials failed to forward the state aid allocation to the relief association until February 15, 2022, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). In addition, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

A similar condition was noted in our prior audit report.

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.

Cause: The relief association officials stated they did not receive and deposit the funds timely due to a non-controllable circumstance causing a vacancy in the Dyberry Township Treasurer's position. The relief association officials also stated that they informed the township of the state funds being late, but they did not provide any corroborating documentation.

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

PROMPTON FIRE & RESCUE RELIEF ASSOCIATION UNIT  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We again recommend that the relief association officials adopt internal control procedures to ensure the timely receipt and 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: 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 – Unauthorized Expenditures**

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by the VFRA Act:

Date	Check No.	Description	Amount
05/03/2019	*	Tires for fire company owned vehicle	\$ 2,420
01/08/2020	421864	Auto insurance on fire company owned vehicles	2,148
08/24/2020	426615	Fire company property, building and liability insurance	1,238
10/09/2020	427796	Fire company officers bond coverage	250
11/12/2021	437065	Fire company property, building and liability insurance	1,319
Total			<u>\$ 7,375</u>

\*Paid by cashier’s check.

PROMPTON FIRE & RESCUE RELIEF ASSOCIATION UNIT  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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.
  
- (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.

Costs associated with the purchase of maintenance for fire company owned vehicles and certain insurance costs and bond coverage for the fire company 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 that the aforementioned expenditures were not authorized by the VFRA Act.

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.

Recommendation: We recommend that the relief association be reimbursed \$7,375 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. 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$4,568 on August 3, 2022, and \$2,807 on August 15, 2022, for the unauthorized expenditures made during the current audit period.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$7,375 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

PROMPTON FIRE & RESCUE RELIEF ASSOCIATION UNIT  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Inadequate Surety (Fidelity) Bond Coverage**

**Condition:** The relief association failed to maintain adequate Surety (Fidelity) bond coverage on the association’s disbursing officer, as required by the VFRA Act. Specifically, the Surety (Fidelity) bond policy in effect during the audit period was a name bond and covered the Treasurer who was in office; however, subsequent to the audit period, the treasurer’s position changed, and a new Treasurer was elected to office in 2022 but the bond policy still covered the previous individual who was no longer a relief association officer. A name bond lists and provides protection for individual(s) whose name(s) appear on the bond. A position bond lists and provides protection for position(s) listed on the bond regardless of the individual(s) holding the position.

**Criteria:** Section 7415(c)(4) of the VFRA Act states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Since the relief association has a name bond, the relief association should make sure that the proper individual is bonded when a new Treasurer is elected to ensure that there is adequate protection of relief association assets or change to a position bond.

**Cause:** The relief association officials indicated that they were unaware that the relief association’s assets were not adequately protected due to the name bond.

**Effect:** As a result of the disbursing officer of the relief association not being adequately bonded, the relief association’s cash assets were not adequately safeguarded.

**Recommendation:** We recommend that the relief association officials ensure that the disbursing officer is adequately covered by a faithful performance Surety (Fidelity) bond as required by the VFRA Act. This requirement may be accomplished by obtaining a Surety (Fidelity) bond that is a position bond instead of a name bond or update the disbursing officer’s name with the insurance provider when changes occur. 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.

PROMPTON FIRE & RESCUE RELIEF ASSOCIATION UNIT  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – Failure To Obtain A Federal Tax Identification Number**

Condition: The relief association failed to comply with the Tax Equity and Fiscal Responsibility Act by not obtaining a federal tax identification number. The relief association is inappropriately using the fire service organization's federal tax identification number, although the fire service organization and the relief association are separate legal entities.

Criteria: All businesses, both profit and nonprofit, are required to obtain a federal tax identification number and provide this number to any financial institution where funds are earning interest. If their tax identification number is not provided, the financial institution is required to withhold 31 percent of interest earned and transmit these funds to the Internal Revenue Service, representing federal income taxes.

Cause: The relief association officials indicated that they were unaware of the necessity to obtain its own federal tax identification number.

Effect: Failure to comply with the Tax Equity and Fiscal Responsibility Act could cause the relief association to be penalized by the Internal Revenue Service, resulting in the loss of funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We recommend that the relief association officials immediately apply for its own federal tax identification number through the Internal Revenue Service and furnish this number to its financial institutions. Relief association officials should also consider applying to the Internal Revenue Service for tax exempt status as a nonprofit corporation under Internal Revenue Code 501(c). 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, as a result of our audit, the relief association received their own federal tax identification number and are in the process of providing this information to their financial institutions.

Auditor's Conclusion: We reviewed the supporting documentation verifying the relief association received their own federal tax identification number. Continued compliance will be subject to verification through our next audit.

PROMPTON FIRE & RESCUE RELIEF ASSOCIATION UNIT  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Prompton Fire & Rescue Relief Association Unit Governing Body:

**Mr. Gene Mohrmann**  
President

**Mr. Brad Potter**  
Vice President

**Mr. Michael Felsman**  
Secretary

**Mr. Jeff Brundage**  
Treasurer

PROMPTON FIRE & RESCUE RELIEF ASSOCIATION UNIT  
REPORT DISTRIBUTION LIST

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

**Ms. Carol Burkhardt**  
Secretary  
Canaan Township

**Mr. Jerry McDonald**  
Secretary  
Cherry Ridge Township

**Ms. Debbie Varco**  
Secretary  
Dyberry Township

**Ms. Joann B. Hancock**  
Secretary  
Prompton Borough

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