

COMPLIANCE AUDIT

Allensville Volunteer Fire Company Firemen's Relief Association

Mifflin County, Pennsylvania
For the Period
January 1, 2019 to December 31, 2021

October 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Bradley Yoder, President
Allensville Volunteer Fire Company
Firemen's Relief Association
Mifflin County

We have conducted a compliance audit of the Allensville Volunteer Fire Company Firemen'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.

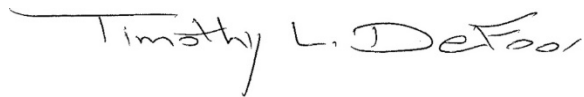
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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 – Inadequate Signatory Authority For The Disbursement Of Funds
And Inadequate Internal Controls

Finding No. 2 – Payment Of Pennsylvania Sales Tax

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
September 28, 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 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>2019</u>	<u>2020</u>	<u>2021</u>
Brady Township	Huntingdon	\$ 1,880	\$ 1,900	\$1,757*
Menno Township	Mifflin	\$10,793	\$11,210	\$9,877

* Although Brady Township prepared and returned a Certification Form AG 385 for 2021 by the March 31 annual filing date in accordance with Act 205, the township did not distribute the 2021 state aid to the relief association in a timely manner. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2021, who forwarded this state aid to the affiliated fire company instead of the relief association on October 14, 2021. Although the distribution was within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), the state aid allocation was sent to the incorrect entity and not to the relief association. The affiliated fire company erroneously deposited the state aid allocation. As a result of our audit, on July 28, 2022, the relief association received a check from the affiliated fire company and the \$1,757 was deposited into the relief association’s account.

Based on the relief association’s records, its total cash as of December 31, 2021 was \$42,900, as illustrated below:

Cash	\$ 42,900
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BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2019 to December 31, 2021 were \$42,561, 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	\$	4,393
Tokens of sympathy and goodwill		172
Total Benefit Services	\$	<u>4,565</u>

Fire Services:

Equipment purchased	\$	34,149
Equipment maintenance		2,396
Training expenses		678
Total Fire Services	\$	<u>37,223</u>

Administrative Services:

Bond premiums	\$	<u>673</u>
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Other Expenditures:

Unauthorized sales tax paid – See Finding No. 2	\$	<u>100</u>
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Total Expenditures	\$	<u><u>42,561</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:

Allensville Volunteer Fire Company

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

ALLENSVILLE VOLUNTEER FIRE COMPANY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Inadequate Signatory Authority For The Disbursement Of Funds And
Inadequate Internal Controls**

Condition: During the current audit engagement, we identified 11 out of 45 checks drawn on the relief association's checking account that contained two signatures; however, one of the signatures was from the Assistant Fire Chief who was not an authorized officer as stated in the relief association's bylaws. All 45 checks were signed by the disbursing officer as required by the VFRA Act.

In addition, the relief association failed to establish adequate internal controls by using a signature stamp to affix the President of the Relief Association's signature to checks without controls over the custody of the stamp. During our audit period, the signature stamp was used on 5 of the 45 checks issued by the relief association. Furthermore, during the post audit period, from January 1, 2022, through June 13, 2022, the stamp was used on all 9 checks that were issued by the relief association.

Issuing checks with the signature of an unauthorized officer or issuing checks without the actual signature of the relief association officer negates the relief association's internal control over the disbursement process.

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.

The relief association's bylaws at Article III, Section 1 states, in part:

The officers of this association shall consist of a President, Vice President, Secretary and Treasurer.

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

The signatures of at least two officers, one of whom shall be the treasurer, shall be required for the issuance of relief association checks, withdrawal from the association savings account, the redemption of any relief association investment or on any other negotiable instrument issued by the association.

ALLENSVILLE VOLUNTEER FIRE COMPANY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 relief association officials stated these errors occurred because they incorrectly assumed that since the individual who cosigned the checks was an authorized signer on record with the bank, it was acceptable for him to sign the checks. They acknowledged that the individual was not authorized in the bylaws. In addition, the relief association officials were not aware that a signature stamp was not permitted to be used to sign checks.

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets. As a result of the relief association issuing checks with only one authorized signature, assets were placed at greater risk as expenditures were being made without a second authorized 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.

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two authorized officers, one of whom shall be the Treasurer, are included on all relief association negotiable instruments as defined by the VFRA Act. We also recommend that the relief association officials adopt internal control procedures which require that all checks be signed and discontinue the use of the signature stamp. 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.

ALLENSVILLE VOLUNTEER FIRE COMPANY FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Payment Of Pennsylvania Sales Tax

Condition: During the current audit period, the relief association paid \$100 of Pennsylvania sales tax to a vendor from which the relief association purchased equipment. During the post audit period, from January 1, 2022, through March 14, 2022, the relief association paid an additional \$468 of Pennsylvania sales tax to the same vendor. The relief association has a valid Pennsylvania sales tax exemption number. These payments would not have been made if the relief association had more closely monitored the invoices prior to making payment.

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 indicated that they did not notice sales tax was charged on the invoices before making payment.

Effect: As a result of the relief association's failure to closely review the invoices set up for payment, the relief association was required to pay Pennsylvania sales tax on its purchase, 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 \$568, 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 that they have begun to take action to comply with the recommendation by contacting the vendor for reimbursement.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

ALLENSVILLE VOLUNTEER FIRE COMPANY FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Charles J. McGarvey, Sr.
State Fire Commissioner

Allensville Volunteer Fire Company Firemen's Relief Association Governing Body:

Mr. Bradley Yoder
President

Mr. Glen Peachey
Vice President

Ms. Carol Eckley
Secretary

Ms. Tara Eckley
Treasurer

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

Ms. Nicole D. Ross
Secretary
Brady Township

Mr. Harry Clever
Secretary
Menno Township

ALLENSVILLE VOLUNTEER FIRE COMPANY FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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