

COMPLIANCE AUDIT

The Relief Association of the Montgomery Volunteer Fire Company Lycoming County, Pennsylvania For the Period January 1, 2019 to December 31, 2021

August 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Steve Cook, President
The Relief Association of the Montgomery
Volunteer Fire Company
Lycoming County

We have conducted a compliance audit of The Relief Association of the Montgomery Volunteer Fire Company (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.

We were not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by the VFRA Act.

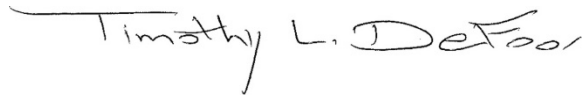
Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2019 to December 31, 2021, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative 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 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

Finding No. 2 – Failure To Conduct Annual Physical Equipment Inventories

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



Timothy L. DeFoor
Auditor General
July 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.

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Montgomery Borough	Lycoming	\$6,518	\$6,591	\$5,870

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 \$82,836, as illustrated below:

Cash	\$ 5,937
Fair Value of Investments	<u>76,899</u>
Total Cash and Investments	<u>\$ 82,836</u>

Based on the relief association's records, its total expenditures for the period January 1, 2019 to December 31, 2021 were \$17,335, 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>\$ 4,734</u>
Fire Services:	
Equipment purchased	\$ 5,827
Equipment maintenance	<u>4,160</u>
Total Fire Services	<u>\$ 9,987</u>
Administrative Services:	
Officer compensation	\$ 250
Other administrative expenses	1,720
Bond premiums	<u>366</u>
Total Administrative Services	<u>\$ 2,336</u>
Other Expenditures:	
Unauthorized sales tax paid (See Finding No. 3)	<u>\$ 278</u>
Total Expenditures	<u>\$ 17,335</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:

Montgomery Volunteer Fire Company

THE RELIEF ASSOCIATION OF THE MONTGOMERY VOLUNTEER FIRE COMPANY
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

Condition: In 2005, the relief association had expended \$7,200 towards the joint purchase of a 2000 Pierce Saber Rescue with the affiliated fire company which had a total cost of \$255,733. The relief association entered into an agreement with the affiliated fire company dated December 5, 2005 where the relief association would receive the pro-rata share percentage of 2.82% if the vehicle was ever sold. In 2019, the jointly purchased vehicle was sold for \$125,000; however, the relief association did not provide documentation of the sale of the vehicle and did not receive and deposit its proportional ownership interest of the proceeds from the sale of the jointly purchased vehicle.

Criteria: Section 7418(a) of the VFRA Act states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold. Once the vehicle is sold, the relief association officials should closely monitor all sales to ensure proceeds are received and timely deposited into a relief association account.

Cause: Relief association officials did execute a formal written agreement with the affiliated fire company; however, they failed to ensure that it received and deposited its proportional ownership interest due from the proceeds of the sale of a jointly purchased vehicle with the affiliated fire company into a relief association account. The relief association officials indicated that they did not know why this occurred and they were still investigating.

THE RELIEF ASSOCIATION OF THE MONTGOMERY VOLUNTEER FIRE COMPANY
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The failure to receive and deposit the proceeds from the sale of a jointly purchased vehicle with the affiliated fire company places the relief association's ownership interest at greater risk. As a result, the relief association was unable to use the funds for general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$3,525 for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle and provide documentation for the sale of the vehicle. We also recommend that the relief association officials establish accounting and internal control procedures to ensure that all future proceeds resulting from the sale of a jointly purchased vehicle are timely deposited in a relief association account. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management disagreed with the finding as presented at the audit exit conference.

Auditor's Conclusion: Based on the criteria, the issue remains as stated and we recommend that the relief association be reimbursed \$3,525 for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle and provide documentation for the sale of the vehicle. Compliance will be subject to verification through our next audit.

Finding No. 2 – Failure To Conduct Annual Physical Equipment Inventories

Condition: As cited as a verbal observation in our prior audit, the relief association officials failed to conduct annual physical inventories of equipment and ensure such inventory accounted for all equipment owned by the relief association.

Criteria: Sound business practice dictates that annual inventories are conducted to ensure the accuracy of the relief association's equipment roster.

Cause: The relief association officials did not provide a specific reason for why this occurred.

Effect: The failure to perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association owned equipment.

THE RELIEF ASSOCIATION OF THE MONTGOMERY VOLUNTEER FIRE COMPANY
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials ensure they perform an annual physical inventory of all operable equipment and that the completion of the inventories 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: Compliance will be subject to verification through our next audit.

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

Condition: 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. Additionally, the relief association paid \$278 of Pennsylvania sales tax to a vendor from which the relief association purchased equipment. This payment would not have been required if the relief association had obtained a sales tax exemption number and provided it to the vendor.

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 and provide their state sales tax exemption number to all vendors from which the relief association purchases equipment.

Effect: As a result of the relief association’s failure to obtain and provide a 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.

THE RELIEF ASSOCIATION OF THE MONTGOMERY VOLUNTEER FIRE COMPANY
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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. Also, we recommend that the relief association officials seek a refund of the sales tax paid, in the amount of \$278, by filing an appeal form (REV-65BA) with the Pennsylvania Department of Revenue's Board of Appeal or be reimbursed. 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 RELIEF ASSOCIATION OF THE MONTGOMERY VOLUNTEER FIRE COMPANY
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

The Relief Association of the Montgomery Volunteer Fire Company Governing Body:

Mr. Steve Cook
President

Mr. Timothy Edkin
Vice President

Ms. Kelly Oister
Secretary

Mr. Neal Winder
Treasurer

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

Ms. Angelia Adams
Secretary
Montgomery 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.