



HYDETOWN VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION

CRAWFORD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2009



CONTENTS

Background.....	1
Letter From the Auditor General	3
Status of Prior Findings	5
Finding and Recommendation:	
Finding – Noncompliance With Prior Audit Recommendation – Failure to Obtain a Federal Tax Identification Number.....	6
Accompanying Expenditure Information	7
Report Distribution List	9



BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), 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, Act of December 18, 1984, (P.L. 1005, No. 205), as amended 53 P.S. § 895.701 et seq. (commonly referred to as Act 205), are properly expended.

The Hydetown Volunteer Fire Department's Relief Association, herein referred to as Hydetown Volunteer Firefighters' 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.

Act 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, it is the responsibility of the volunteer firefighters' relief association 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, which is or are recognized as providing the service to the municipality.

BACKGROUND (Continued)

The Hydetown Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Hydetown Borough	Crawford	\$3,042	\$3,110	\$2,777
Oil Creek Township	Crawford	\$7,346	\$7,597	\$6,783
Troy Township	Crawford	\$2,265	\$2,328	\$2,113

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Hydetown Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Hydetown Volunteer Fire Department

Mr. Tom Weaver, President
HYDETOWN VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Crawford County

We have conducted a compliance audit of the Hydetown Volunteer Firefighters' Relief Association pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2007 to December 31, 2009.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Hydetown Volunteer Firefighters' Relief Association's administration of state aid and accumulated funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer

firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Hydetown Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Hydetown Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives.

The results of our audit for the period January 1, 2007 to December 31, 2009, found the Hydetown Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the three findings contained in our prior audit report. However, the Hydetown Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found, in all significant respects, the Hydetown Volunteer Firefighters' Relief Association received and expended state aid and accumulated funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the finding listed below and discussed in detail in the Finding and Recommendation section of this report. The results of our tests also indicated the Hydetown Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2009, had a cash balance of \$46,388 and no investments.

Finding – Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

The contents of this report were discussed with the management of the Hydetown Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

November 18, 2010

JACK WAGNER
Auditor General

HYDETOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Hydetown Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Undocumented Expenditures

By receiving reimbursement from Hydetown Volunteer Fire Department, in the amount of \$495, for the undocumented expenditures made in the prior audit period. In addition, the relief association did not make any undocumented expenditures during the current audit period.

- Inadequate Officer's Bond Coverage

By increasing the officer's bond coverage from \$20,000 to \$50,000.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Hydetown Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This finding is noted below and discussed in detail in the Finding and Recommendation section of this report:

- Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

We are concerned with the volunteer firefighters' relief association's failure to correct a previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

HYDETOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

Condition: As cited in our prior audit report, the volunteer firefighters' relief association officials, again, failed to comply with the Tax Equity and Fiscal Responsibility Act by failing to obtain a federal tax identification number. The relief association is inappropriately using the fire service organization's federal tax identification number, as 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, as an estimate of federal income taxes due.

Cause: While notified of this condition during our prior audit, the relief association neglected to take appropriate steps in order to procure 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 assessed taxes by the Internal Revenue Service, resulting in the loss of funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We, again, recommend the relief association immediately apply for its own federal tax identification number through the Internal Revenue Service and furnish this number to its financial institutions. The relief association 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 indicated they will take action to comply with the recommendation.

HYDETOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2009

Act 84 at 53 P.S. § 8502(1) states, in part, that:

A volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds. All expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 12,969
Total Benefit Services	\$ 12,969
Fire Services:	
Equipment purchased	\$ 280
Equipment maintenance	2,435
Training expenses	1,990
Total Fire Services	\$ 4,705



HYDETOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Hydetown Volunteer Firefighters' Relief Association Governing Body:

Mr. Tom Weaver, President

Mr. Chris Sterling, Vice President

Mr. Larry Roof, Secretary

Mr. Rickie W. List, Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Patricia Myer, Secretary
Hydetown Borough

Ms. April L. Averill, Secretary
Oil Creek Township

Mr. John T. Strawbridge, Secretary
Troy Township

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.