

# COMPLIANCE AUDIT

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## Bethlehem Township Volunteer Fire Company Relief Association Northampton County, Pennsylvania For the Period January 1, 2019 to December 31, 2021

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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. Timothy J. Brady, President  
Bethlehem Township Volunteer Fire  
Company Relief Association  
Northampton County

We have conducted a compliance audit of the Bethlehem Township Volunteer Fire Company 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 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 cash balance and the investment balance directly from the financial institutions. Therefore, while the relief association provided bank and investment statements that indicated that, as of December 31, 2021, the relief association had a cash balance of \$291,362 and an investment balance with a fair value of \$123,327, we were not able to verify a portion of the cash balance and the investment balance.

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

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- Because of the significance of the matter described in Finding No. 2 below and discussed later in this report and the effects, if any, of the matter described in the preceding paragraph, the relief association did not, in all significant respects, comply 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, collectively as a whole. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Failure To Monitor Financial Accounts

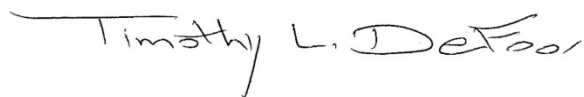
Finding No. 2 – Inappropriate Ownership Of Rescue Vehicle

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

We have also issued the observation below as detailed in the Observation section of this report.

Observation – FDIC Coverage Limits Exceeded

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  
August 16, 2022

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	4
Findings and Recommendations:	
Finding No. 1 – Failure To Monitor Financial Accounts.....	5
Finding No. 2 – Inappropriate Ownership Of Rescue Vehicle.....	6
Finding No. 3 – Inadequate Surety (Fidelity) Bond Coverage.....	6
Observation:	
Observation – FDIC Coverage Limits Exceeded.....	8
Potential Withhold of State Aid.....	9
Report Distribution List.....	10

## 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Bethlehem Township	Northampton	\$89,736	\$91,858	\$82,983

Based on the relief association's records, its total cash and investments as of December 31, 2021 were \$414,689, as illustrated below:

Cash	\$ 291,362
Fair Value of Investments	<u>123,327</u>
Total Cash and Investments	<u>\$ 414,689</u>

Based on the relief association's records, its total expenditures for the period January 1, 2019 to December 31, 2021 were \$409,352, 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:	
Death benefits	<u>\$ 2,000</u>
Fire Services:	
Equipment purchased	\$ 400,639
Equipment maintenance	<u>6,495</u>
Total Fire Services	<u>\$ 407,134</u>
Administrative Services:	
Other administrative expenses	<u>\$ 218</u>
Total Expenditures	<u>\$ 409,352</u>

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<sup>4</sup> 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:

Bethlehem Township Volunteer Fire Company, Inc.

BETHLEHEM TOWNSHIP VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Failure To Conduct Annual Physical Equipment Inventories

By performing and documenting an annual physical inventory of all relief association owned equipment.



BETHLEHEM TOWNSHIP VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Monitor Financial Accounts**

Condition: On June 30, 2021, the fire department paid \$15,500 to the relief association for a 2005 F-550 Ford truck. Relief association officials indicated the relief association deposited the \$15,500 proceeds into the relief association bank account on July 28, 2021, but the bank erroneously withdrew the funds from the account the same day. We noted during our audit that the proceeds were not showing as deposited in the bank account.

Criteria: Prudent business practice dictates that the relief association should reconcile bank statements to their records monthly. Such a reconciliation would have identified that the funds intended to be deposited were not in the account.

Cause: The relief association officials indicated that the financial institution made an error with depositing the check and the check was lost by the financial institution. Relief association officials did not explain why the financial accounts were not properly monitored.

Effect: The relief association's failure to adequately monitor financial accounts resulted in a loss of funds that was not identified until the conduct of our audit.

Recommendation: We recommend that the relief association receive and deposit \$15,500 for the vehicle sale. We also recommend the relief association officials monitor their financial accounts, including performing monthly bank reconciliations. 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 a second payment from the fire department, and the \$15,500 funds were deposited on May 12, 2022.

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

BETHLEHEM TOWNSHIP VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Inappropriate Ownership Of Rescue Vehicle**

Condition: On April 11, 2021, the relief association purchased a 2021 Ford F-350 rescue vehicle, in the amount of \$54,462, to carry personnel and safeguard equipment; however, the title to the vehicle was inappropriately issued in the name of the fire company.

Criteria: Prudent business practice dictates that the relief association should maintain sole ownership of all equipment purchased by the relief association. As such, rescue vehicles purchased by the relief association are to be titled in the name of the relief association.

Cause: The vehicle was erroneously titled to the fire company and the mistake was not corrected timely.

Effect: As a result of the rescue vehicle being inappropriately titled in the name of the fire company, this relief association asset was not properly safeguarded. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the 2021 Ford F-350 rescue vehicle be titled in the name of the relief association. If such action is not taken, we recommend that the relief association be reimbursed \$54,462. 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 provided documentation evidencing the change of registration to the relief association.

Auditor's Conclusion: We continue to recommend that the relief association send a copy of the amended title upon receipt. Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

**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 and subsequent to the audit period, was issued jointly in the name of the fire company and the relief association.

BETHLEHEM TOWNSHIP VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

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 and the fire company are separate and distinct legal entities, the relief association should maintain a Surety (Fidelity) bond solely in the name of the relief association to ensure that there is adequate protection of relief association assets.

Cause: Relief association officials indicated that the relief association's bond coverage was changed to be included under the fire company's policy.

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 solely in the relief association's name. 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.

BETHLEHEM TOWNSHIP VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION  
OBSERVATION

**Observation – FDIC Coverage Limits Exceeded**

As disclosed in a written observation in the previous audit, the relief association again failed to ensure that all cash deposits were below the FDIC coverage limits per account ownership in one institution. As of December 31, 2021, the relief association's ending cash and investment balances with the financial institution amounted to \$364,623.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United State government that protects the funds depositors place in banks and savings associations. FDIC insurance is backed by the full faith and credit of the United States government.

FDIC insurance covers all deposit accounts, including:

- Checking accounts
- Savings accounts
- Money market accounts
- Certificates of deposit

FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual funds, life insurance policies, annuities and securities. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.

Section 7413 of the VFRA Act states that the purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure as far as circumstances will reasonably permit, that the funds shall be available for the protection of the volunteer firefighters' and their heirs.

Furthermore, prudent business practice dictates that in addition to performing monthly bank reconciliations, the relief association should ensure the relief association's cash balance does not exceed FDIC limits set by banking regulations. Lack of effective monitoring of relief association cash and investment assets places the relief association funds at greater risk for loss.

The relief association should monitor all cash and investment assets that are eligible for FDIC insurance and ensure the balance of those assets per banking institution does not exceed FDIC coverage limits.

BETHLEHEM TOWNSHIP VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action may not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

BETHLEHEM TOWNSHIP VOLUNTEER FIRE COMPANY 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

Bethlehem Township Volunteer Fire Company Relief Association Governing Body:

**Mr. Timothy J. Brady**  
President

**Mr. Colby J. Kuronya**  
Secretary

**Mr. Eric Norder**  
Treasurer

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

**Mr. Doug Bruce**  
Secretary  
Bethlehem Township

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).