

COMPLIANCE AUDIT

Friendship Fireman's Relief Association of Hallam, PA York County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

October 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Marlyn Stough, President
Friendship Fireman's Relief Association
of Hallam, PA
York County

We have conducted a compliance audit of the Friendship Fireman's Relief Association of Hallam, PA (relief association) for the period January 1, 2018 to December 31, 2020. 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, 35 Pa.C.S. § 7411 *et seq.* ("VFRA Act"), as most recently amended by Act 91 of 2020.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the findings 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.

Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2020:

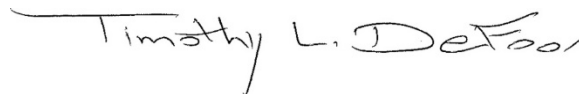
- The relief association took appropriate corrective action to address the findings contained in our prior audit report.
- Because of the significance of the matter described in Finding No. 1 below and discussed later in this report, the relief association did not, in all significant respects, comply 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 – Inappropriate Ownership Of Rescue Vehicle

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Undocumented Expenditure

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.



October 13, 2021

Timothy L. DeFoor
Auditor General

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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>2018</u>	<u>2019</u>	<u>2020</u>
Hallam Borough	York	\$11,668	\$12,494	\$12,623
Hellam Township	York	\$18,006	\$18,986	\$19,043

Based on the relief association's records, its total cash and investments as of December 31, 2020 were \$299,432, as illustrated below:

Cash	\$ 113,574
Fair Value of Investments	<u>185,858</u>
Total Cash and Investments	<u><u>\$ 299,432</u></u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$205,239, 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>\$ 9,545</u>
Fire Services:	
Equipment purchased	\$ 111,214
Equipment maintenance	22,187
Training expenses	3,804
Total Fire Services	<u>\$ 137,205</u>
Administrative Services:	
Other administrative expenses*	\$ 3,821
Bond premiums	624
Total Administrative Services	<u>\$ 4,445</u>
Total Investments Purchased	<u>\$ 50,000</u>
Other Expenditures:	
Unauthorized expenditures	\$ 3,424
Undocumented expenditure	560
Payment of PA sales tax**	60
Total Other Expenditures	<u>\$ 4,044</u>
Total Expenditures	<u><u>\$ 205,239</u></u>

* Other administrative expenses represents a five-year subscription to an emergency response application in the amount of \$3,137 and Emergency Reporting PA CAD link setup fees in the amount of \$684.

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

BACKGROUND – (Continued)

** The relief association paid an insignificant amount of \$60 of Pennsylvania sales tax to an equipment maintenance vendor. This payment would not have been required if the relief association had provided its sales tax exemption number to the vendor. We disclosed this issue to relief association officials on September 9, 2021.

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:

Friendship Fire Company

FRIENDSHIP FIREMAN'S RELIEF ASSOCIATION OF HALLAM, PA
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has complied with the prior audit findings and recommendations, as follows:

- Failure To Maintain Minutes Of Meetings

By maintaining minutes of all relief association meetings held during the period.

- Failure To Adhere To Relief Association Bylaws

By establishing guidelines and procedures to meet the provisions contained in the relief association bylaws.

FRIENDSHIP FIREMAN'S RELIEF ASSOCIATION OF HALLAM, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inappropriate Ownership Of Rescue Vehicle

Condition: On June 19, 2017, the relief association solely purchased a rescue vehicle, in the amount of \$36,928, to carry personnel and safeguard equipment; however, the title to the vehicle was inappropriately issued jointly in the name of the relief association and the affiliated fire company without any agreement enumerating the relief association's 100 percent ownership interest in the jointly purchased vehicle as well as stipulating that all of the proceeds upon sale of the vehicle shall revert to the relief association.

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 only in the name of the relief association. If the title is in the name of the relief association and the affiliated fire company, an agreement should be in place that enumerates the relief association's 100 percent ownership interest in the vehicle as well as stipulating that all sales proceeds shall revert to the relief association in the event the vehicle is ever sold.

Cause: Relief association officials stated the rescue vehicle is titled in the name of the relief association and the affiliated fire company for insurance purposes. Relief association officials further stated that they were unaware of the necessity of executing an agreement with the fire company when the rescue vehicle was not titled solely in the name of the relief association.

Effect: As a result of the rescue vehicle being inappropriately titled in the name of the relief association and the affiliated fire company and the lack of a related agreement enumerating the relief association's 100 percent ownership interest in the jointly purchased vehicle as well as that all of the proceeds upon sale of the vehicle shall revert to the relief association, 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 rescue vehicle be titled only in the name of the relief association or that the relief association officials execute a formal written agreement with the affiliated fire company that enumerates the relief association's 100 percent ownership interest in the jointly purchased vehicle as well as stipulating that all sales proceeds shall revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$36,928. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

FRIENDSHIP FIREMAN'S RELIEF ASSOCIATION OF HALLAM, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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: 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. 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:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/26/18	2211	Medical supplies for use on the general public	\$ 242
05/09/18	2224	Dress uniform shirts and pants	122
06/11/18	2227	Medical supplies for use on the general public	179
09/11/18	2233	Medical supplies for use on the general public	135
03/12/19	2253	Medical supplies for use on the general public	1,773
06/04/19	2266	Medical supplies for use on the general public	973
Total			<u><u>\$ 3,424</u></u>

Criteria: Section 7416(f) of the VFRA Act states:

The funds of any volunteer firefighters' relief association may be spent:

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

Costs associated with the purchase of medical supplies for use on the general public do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act. Likewise, the cost associated with the purchase of the dress uniform and pants does not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this expenditure is also not authorized under the VFRA Act.

FRIENDSHIP FIREMAN'S RELIEF ASSOCIATION OF HALLAM, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: 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 \$3,424 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 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 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$560 to an individual on March 12, 2019.

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 supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials indicated that the documentation to support this expenditure was mistakenly not retained.

FRIENDSHIP FIREMAN'S RELIEF ASSOCIATION OF HALLAM, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: Lack of supporting documentation, such as an invoice and/or itemized receipt, made it impossible to determine if the expenditure was made in accordance with Section 7416(f) of the VFRA Act. In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as an invoice and/or itemized receipt, to ensure the propriety of the expenditure or that the relief association be reimbursed \$560 for the undocumented expenditure. We also recommend that the relief association officials maintain supporting documentation for all 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 indicated they will take action to comply with the recommendation.

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

FRIENDSHIP FIREMAN'S RELIEF ASSOCIATION OF HALLAM, PA
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 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.

FRIENDSHIP FIREMAN'S RELIEF ASSOCIATION OF HALLAM, PA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Friendship Fireman's Relief Association of Hallam, PA Governing Body:

Mr. Marlyn Stough
President

Mr. Andrew Fusco
Secretary

Mr. Daniel Hoover
Treasurer

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

Ms. Sharon L. Dupler
Secretary
Hallam Borough

Ms. Corina L. Mann
Secretary
Hellam Township

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.