

COMPLIANCE AUDIT

Hazleton Volunteer Firemen's Relief Association of Hazleton, PA Luzerne County, Pennsylvania For the Period January 1, 2019 to December 31, 2020

August 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Robert Mandak, Sr., President
Hazleton Volunteer Firemen's Relief
Association of Hazleton, PA
Luzerne County

We have conducted a compliance audit of the Hazleton Volunteer Firemen's Relief Association of Hazleton, PA (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, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2019 to December 31, 2020.

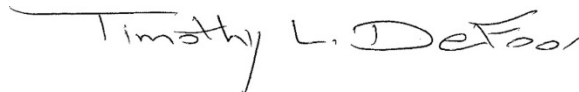
The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective 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, because of the significance of the matter described in the finding 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, for the period January 1, 2019 to December 31, 2020. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding – Unauthorized Expenditures

The contents of this report were discussed with the management of the relief association and, where appropriate, their response has 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

July 12, 2021

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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, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, 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 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 118 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, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, 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.

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>
Hazleton City	Luzerne	\$80,380*	\$79,384*

* Although Hazleton City prepared and returned a Certification Form AG 385 for 2019 and 2020, the date the city distributed the 2019 and 2020 state aid to the relief association could not be determined because the city failed to submit a Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this department as required by the instructions accompanying Form 706-B and the instructions accompanying the 2019 and 2020 state aid allocations received by the city disclosing this information.

Hazleton City is still required to submit a 2019 and 2020 Receipt and Distribution of Foreign Fire Insurance Premium Tax Form 706-B to this Department as soon as possible.

Based on the relief association’s records, its total cash and investments as of December 31, 2020 were \$3,679,157, as illustrated below:

Cash	\$ 163,760
Fair Value of Investments	<u>3,515,397</u>
Total Cash and Investments	<u>\$ 3,679,157</u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2019 to December 31, 2020 were \$283,184, 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.¹ **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	\$ 39,051
Death benefits	50,000
Relief benefits	1,995
Total Benefit Services	<u>\$ 91,046</u>
Fire Services:	
Equipment purchased	\$ 127,126
Equipment maintenance	14,201
Training expenses	8,782
Total Fire Services	<u>\$ 150,109</u>
Administrative Services:	
Officer compensation	\$ 8,108
Other administrative expenses	7,915
Bond premiums	546
Total Administrative Services	<u>\$ 16,569</u>
Other Expenditures:	
Unauthorized expenditures	<u>\$ 25,460</u>
Total Expenditures	<u><u>\$ 283,184</u></u>

¹ 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 organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Diamond Fire Company No. 2

East End Fire Company No. 3

Fourteenth Ward Fire Company No. 5

Heights Fire Company No. 4

Pioneer Fire Company No. 1

HAZLETON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF HAZLETON, PA
FINDING AND RECOMMENDATION

Finding – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

Date	Check No.	Description	Amount
01/18/2019	5508	Boots for paid firefighter	\$ 345
04/12/2019	5525	Gear for paid firefighter	2,383
07/12/2019	5563	Boots for paid firefighter	355
10/11/2019	5582	Insurance premium for paid firefighters*	2,343
10/11/2019	5583	Training for paid firefighter	885
08/14/2020	5679	Gear for paid firefighter	3,393
08/14/2020	5683	Gear for four paid firefighters	13,753
11/13/2020	5691	Insurance premium for paid firefighters*	2,003
Total			<u>\$ 25,460</u>

In addition, subsequent to the audit period, the relief association made a \$7,519 unauthorized expenditure with Check No. 5747 for two sets of gear for paid firefighters on April 9, 2021.

*The basis for determining the amount of the unauthorized expenditure portion for insurance in the table above was calculated by using the 2019 and 2020 AG 385 Forms provided by municipal officials, which indicated that 20% of the firefighters were under paid protection. Therefore 20% of the insurance amount is considered unauthorized.

Criteria: Section 7416(f) of Act 118 states:

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

- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.
- (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 insurance premiums, equipment and training for paid firefighters do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

HAZLETON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF HAZLETON, PA
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association be reimbursed \$32,979 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of Act 118 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: 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.

HAZLETON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF HAZLETON, PA
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by the finding 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.

HAZLETON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF HAZLETON, PA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Hazleton Volunteer Firemen's Relief Association of Hazleton, PA Governing Body:

Mr. Robert Mandak, Sr.
President

Mr. John Floyd, Jr.
Vice President

Mr. James Hoegg
Secretary

Mr. David Bridge
Treasurer

Mr. Edward Jacobs
Trustee

Mr. Jerry Palermo
Trustee

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

Ms. Eileen Matenkoski
Secretary
Hazleton City

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.