

COMPLIANCE AUDIT

Hustontown Area Volunteer Fire Company Relief Association

Fulton County, Pennsylvania

For the Period

January 1, 2021, to December 31, 2022

June 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Ms. Yvette Miller, President
Hustontown Area Volunteer
Fire Company Relief Association
Fulton County

We have conducted a compliance audit of the Hustontown Area Volunteer Fire Company Relief Association (relief association) for the period January 1, 2021, to December 31, 2022. 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 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, 2021, to December 31, 2022:

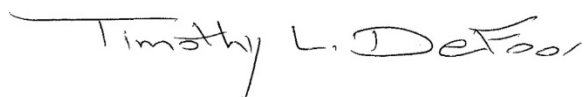
- The relief association took appropriate corrective action to address two of the four findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below, and discussed in the Status of Prior Findings section of this report.
- Because of the significance of the matter described in Finding No. 3 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 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Untimely Deposit of State Aid

Finding No. 3 – Failure To Deposit Proceeds From The Sale Of A Jointly
Purchased Vehicle And Undocumented/ Unsecured Loans

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
May 13, 2024

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	4
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures	5
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Untimely Deposit Of State Aid	6
Finding No. 3 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle And Undocumented/Unsecured Loans.....	7
Potential Withhold of State Aid.....	11
Report Distribution List	12

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 relief association officers therefore have a responsibility to the public to conduct the relief association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all relief association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the relief 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>2021</u>	<u>2022</u>
Dublin Township	Fulton	\$6,504	\$7,757
Licking Creek Township	Fulton	\$3,049	\$3,605
Taylor Township	Fulton	\$6,587	\$8,013
Wells Township	Fulton	\$1,321*	\$1,646
Springfield Township	Huntingdon	\$ 986	\$1,245

* The 2021 state aid allocation received from Wells Township was not deposited by the relief association until January 24, 2022, as disclosed in Finding No. 2 in this report.

Based on the relief association's records, its total cash and investments as of December 31, 2022, were \$255,101, as illustrated below:

Cash	\$ 117,363
Fair Value of Investments	87,770
Book Value of Other Investments	<u>49,968</u>
Total Cash and Investments	<u><u>\$ 255,101</u></u>

BACKGROUND – (Continued)

Based on the relief association's records, its total expenditures for the period January 1, 2021, to December 31, 2022, were \$29,333, 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	\$ 8,320
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Fire Services:

Equipment purchased	\$ 3,499
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Training expenses	2,800
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Total Fire Services	\$ 6,299
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Administrative Services:

Bond premiums	\$ 284
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Other administrative expenses	430
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Total Administrative Services	\$ 714
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Total Investments Purchased	\$ 14,000
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Total Expenditures	\$ 29,333
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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:

Hustontown Area Volunteer Fire Company

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

HUSTONTOWN AREA VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure To Maintain A Complete And Accurate Membership Roster

By maintaining a comprehensive listing of the relief association's membership.

- Failure To Secure Ownership Interest In Jointly Purchased Equipment

By executing a written formal agreement with the affiliated fire company that adequately secures its proportional ownership interest in the jointly purchased equipment.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with two of the four prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Undocumented Expenditures

- Untimely Deposit Of State Aid

We are concerned by the relief association's failure to correct those previously reported audit findings. The relief association management should strive to implement the recommendations and corrective actions noted in this audit report.

HUSTONTOWN AREA VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

Condition: Although the relief association provided adequate supporting documentation for \$1,000 of the \$1,436 in undocumented expenditures that were made in the prior audit period, the relief association officials did not take corrective action to address the remaining prior audit undocumented expenditures of \$436 prior to the end of the current audit period ending December 31, 2022.

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: The relief association officials did not provide a reason why this occurred despite the relief association being notified of this condition during our prior audit.

Effect: Lack of supporting documentation, such as invoices, itemized receipts, and detailed minutes of meetings, made it impossible to determine if the expenditures were 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 again recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$436 for the undocumented expenditures. 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.

HUSTONTOWN AREA VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: Relief association management did not provide a response to the finding as presented at the audit exit conference.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Untimely Deposit Of State Aid

Condition: The relief association did not deposit the 2021 state aid allocation it received from Wells Township, in the amount of \$1,321 until January 24, 2022. The foreign fire insurance tax allocations were distributed to the municipal treasurer on September 21, 2021, who forwarded the state aid to the relief association on October 4, 2021, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

A similar condition was noted in our prior audit report.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: The relief association officials did not provide a reason why this occurred despite the relief association being notified of a similar condition during our prior audit.

HUSTONTOWN AREA VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We again recommend that the relief association officials adopt internal control procedures to ensure the timely deposit of all future income received. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management did not provide a response to the finding as presented at the audit exit conference.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 3 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle And Undocumented/Unsecured Loans

Condition: In 2015, the relief association expended \$100,000 towards the joint purchase of a 2015 Spartan ERV rescue vehicle with the affiliated fire company which had a total cost of \$405,174. The relief association entered into an agreement with the affiliated fire company dated June 27, 2015, where the relief association would receive the pro-rata share percentage of 24.68% "first and foremost" if the vehicle was ever sold. On May 2, 2022, the jointly purchased vehicle was sold for \$325,000; however, the relief association's membership approved their prorated ownership share of the proceeds be loaned to the fire company. The approved loan, as described in the relief association's March 2022 meeting minutes, was for \$78,000 with a term of five years at a three percent interest rate with the 2011 fire company owned brush truck offered as collateral; however, the full prorated proportional relief association ownership interest of the proceeds should have been \$80,210, a difference of \$2,210.

HUSTONTOWN AREA VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

On June 24, 2022, the affiliated fire company paid the relief association \$20,000 of the total proceeds due to the relief association from the vehicle sale along with four monthly payments from July-October 2022, and the November and December payments were made on December 16, 2022. These monthly payment amounts were determined by an amortization table for a \$58,000 loan with a term of 47 months at a three percent interest rate. The loan was not properly documented through an executed loan agreement signed by both parties. In addition, although the relief association holds the first lien position on the title of the 2011 brush truck, we could not confirm whether the rescue vehicle has a sufficient value of \$87,000 to properly secure the loan. As of December 31, 2022, the balance of the loan was \$49,968.

Additionally, on August 11, 2021, the relief association issued a short-term loan to the affiliated fire company in the amount of \$14,000. Although the loan was paid in full plus interest on November 2, 2021, there was no formal loan agreement executed and there was no collateral to secure the loan.

Criteria: Section 7416(c)(3) of the VFRA Act states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any obligation of an incorporated fire company, provided that the obligation is:
(i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

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.

HUSTONTOWN AREA VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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

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. Furthermore, failure to adequately document the loan through a formal written agreement and to obtain adequate security for the loan places the investment at greater risk. As a result, the relief association was unable to use the funds for general operating expenses or for investment purposes. 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 officials and fire company prepare a formal written loan agreement, signed by both parties, specifying the payment schedule and the interest rate. The loan agreement must also specifically identify the collateral to protect the investment as required by Section 7416(c)(3) of the VFRA Act. If such action is not taken, we recommend that the loan be immediately liquidated. We also recommend that the relief association be reimbursed \$2,210 for the outstanding portion of its pro-rata share of the proceeds from the sale of the jointly purchased vehicle. In addition, we recommend 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 agreed with the finding as presented at the audit exit conference and as a result of our audit, the relief association officials provided a loan agreement and collateral signed by both parties on August 8, 2023, that stated that the unpaid principal and accrued interest shall be payable in monthly installments of \$1,284 for 47 months at a three percent interest rate, beginning June 15, 2022, and continuing until April 15, 2026, at which time the remaining unpaid principal and interest shall be due in full.

HUSTONTOWN AREA VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Auditor's Conclusion: We reviewed the supporting documentation verifying the loan agreement and collateral of the loan; however, we continue to recommend that the relief association officials provide documentation that the collateral offered to protect the investment is at least 150% of the balance due as stated in the Criteria. In addition, the relief association officials should seek reimbursement of \$2,210 for the outstanding portion of its pro-rata share of the proceeds from the sale of the jointly purchased vehicle. 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.

HUSTONTOWN AREA VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 3 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 316E Finance Building, Harrisburg, PA 17120.

HUSTONTOWN AREA VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Hustontown Area Volunteer Fire Company Relief Association Governing Body:

Ms. Yvette Miller
President

Mr. Scott Vinson
Vice President

Ms. Jessica Smith
Secretary

Mr. Brian Barton
Treasurer

HUSTONTOWN AREA VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Ms. Heidi Seymore
Secretary
Dublin Township

Ms. Lu Anne Keebaugh
Secretary
Licking Creek Township

Ms. Monica J. Mellott
Secretary
Taylor Township

Ms. Connie L. Barnett
Secretary
Wells Township

Ms. Tiffany Clippinger
Secretary
Springfield Township

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