

# COMPLIANCE AUDIT

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## Hydetown Volunteer Fire Department's Relief Association Crawford County, Pennsylvania For the Period January 1, 2019, to December 31, 2022

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September 2023



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. Chris Sterling, President  
Hydetown Volunteer Fire Department's  
Relief Association  
Crawford County

We have conducted a compliance audit of the Hydetown Volunteer Fire Department's Relief Association (relief association) for the period January 1, 2019, 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 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.

Based on our audit procedures, we conclude that, for the period January 1, 2019, to December 31, 2022:

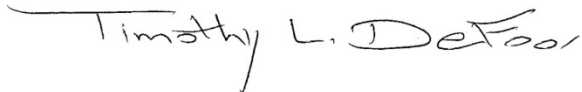
- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- The relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Failure To Maintain Surety (Fidelity) Bond Coverage

Finding No. 3 – Failure To Obtain A Pennsylvania Sales Tax Exemption Number

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 10, 2023

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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<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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Hydetown Borough	Crawford	\$2,195	\$2,245	\$1,991	\$2,441
Oil Creek Township	Crawford	\$6,014	\$6,023	\$5,341	\$6,132
Troy Township	Crawford	\$1,823	\$1,842	\$1,658	\$1,832

Based on the relief association’s records, its total cash as of December 31, 2022, was \$33,790, as illustrated below:

Cash	<u><u>\$ 33,790</u></u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2022, were \$55,477, 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:

Insurance premiums	<u>\$ 2,187</u>
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Fire Services:

Equipment purchased	\$ 37,683
Equipment maintenance	5,396
Training expenses	300
Total Fire Services	<u>\$ 43,379</u>

Administrative Services:

Bond premiums	\$ 1,427
Other administrative expenses	29
Total Administrative Services	<u>\$ 1,456</u>

Other Expenditures:

Undocumented expenditures	<u>\$ 8,455</u>
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Total Expenditures	<u><u>\$ 55,477</u></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:

Hydetown Volunteer Fire Department

HYDETOWN VOLUNTEER FIRE DEPARTMENT'S 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:

- Unsecured Loan

By securing the fire company loan with a lien on a 2017 Polaris Utility Terrain Vehicle.



HYDETOWN VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Undocumented Expenditures**

**Condition:** The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

Date	Check No.	Payee Description	Amount
01/08/2019	547	Training vendor	\$ 136
02/18/2019	549	Affiliated fire department	614
03/11/2019	555	Insurance vendor	87
03/12/2019	556	Affiliated fire department	622
05/14/2019	558	Relief association member	40
05/14/2019	559	Insurance vendor	1,344
05/31/2019	560	Postage vendor	11
07/22/2019	563	Insurance vendor	188
10/09/2019	564	Fire company	200
09/25/2019	565	Insurance vendor	88
09/25/2019	566	Insurance vendor	88
10/28/2019	569	Postage vendor	10
10/30/2019	570	Postage vendor	25
01/14/2020	572	Affiliated fire department	262
5/10/2020	578	Insurance vendor	1,262
05/18/2020	582	Equipment vendor	95
05/20/2020	583	Notary vendor	25
07/14/2020	584	Insurance vendor	92
09/10/2020	586	Relief association member	329
06/17/2021	595	Insurance vendor	92
06/17/2021	596	Insurance vendor	100
06/17/2021	597	Insurance vendor	1,262
08/01/2021	598	Training vendor	60
09/16/2021	602	Relief association member	225
11/02/2021	604	Insurance vendor	91
04/10/2022	607	Insurance vendor	91
04/01/2022	610	Relief association member	850
04/01/2022	611	Relief association member	136
05/10/2022	613	Relief association member	30
Total			<u>\$ 8,455</u>

HYDETOWN VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

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 indicated that there were multiple turnovers in the treasurer's position and the prior treasurers did not keep all the invoices.

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 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 \$8,455 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.

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 affiliated fire company reimbursed the relief association \$8,484 for the undocumented expenditures on May 3, 2023.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$8,484 was received; however, the additional \$29 that was reimbursed was later determined to be an authorized bank check charge. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

HYDETOWN VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Failure To Maintain Surety (Fidelity) Bond Coverage**

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by the VFRA Act. The relief association's Surety (Fidelity) bond coverage expired on September 13, 2022. As of December 31, 2022, the relief association's cash assets totaled \$33,790.

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.

Cause: The relief association officials indicated that the relief association changed to a new insurance carrier and an error resulted in the relief association not having bond coverage.

Effect: As a result of the authorized disbursing officer of the relief association not being bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials obtain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by the VFRA Act. 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 purchased bond coverage on May 3, 2023, in an amount greater than the relief association's maximum cash balance.

Auditor's Conclusion: We reviewed documentation verifying that bond coverage was obtained on May 3, 2023. Compliance for maintaining bond coverage during the next audit period will be subject to verification through our next audit.

HYDETOWN VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Failure To Obtain A Pennsylvania Sales Tax Exemption Number**

Condition: As cited as a verbal observation in prior audits, the relief association failed to obtain a Pennsylvania sales tax exemption number. The relief association is currently using the fire service organization's sales tax exemption number, although the fire service organization and the relief association are separate legal entities.

Criteria: Section 7415(e) of the VFRA Act states:

A volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

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 audits.

Effect: As a result of the relief association's failure to obtain a sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on its purchases, which ultimately reduces the funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We recommend that the relief association officials immediately obtain a state sales tax exemption number from the Department of Revenue and furnish this exemption number to all vendors from whom the relief association purchases equipment. 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.

HYDETOWN VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

Hydetown Volunteer Fire Department's Relief Association Governing Body:

**Mr. Chris Sterling**  
President

**Mr. Tom Sandell**  
Vice President

**Mr. William Bell**  
Secretary

**Mr. Eric Peterson**  
Treasurer

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

**Ms. Patricia Myer**  
Secretary  
Hydetown Borough

**Ms. April Averill**  
Secretary  
Oil Creek Township

**Ms. Joy S. Strain**  
Secretary  
Troy Township

HYDETOWN VOLUNTEER FIRE DEPARTMENT'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

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