

COMPLIANCE AUDIT

The Tyrone Volunteer Firemen's Relief Association Blair County, Pennsylvania For the Period January 1, 2014, to December 31, 2022

February 2025



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Joseph S. Gault, President
The Tyrone Volunteer Firemen's
Relief Association
Blair County

We conducted a compliance audit of The Tyrone Volunteer Firemen's Relief Association (relief association) for the period January 1, 2014, to December 31, 2022, pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Pa. Const. Art. VIII § 10; 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.

We initially began this audit of the relief association for the audit period of January 1, 2018, to December 31, 2021. Due to evidence of potential fraud, we re-evaluated the reliability of the evidence that we used to conclude on the relief association's compliance with applicable requirements as reported in the two previously issued audit reports for the audit periods January 1, 2014, to December 31, 2015, and January 1, 2016, to December 31, 2017. As a result, we determined that those audits were based on unreliable data and we formally withdrew our audit reports for the relief association for those periods, which were previously issued in January 2017 and December 2018, respectively.

Due to the formal withdrawal of the two previous audit reports as discussed above, and the additional time needed for the audit, we also added another calendar year for an audit period of January 1, 2014, to December 31, 2022. The reissuance of the aforementioned two prior audit reports is satisfied by the issuance of this audit report.

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 association funds complies with applicable state laws, contracts, bylaws, and administrative procedures, including the safeguarding of assets. It is our responsibility to perform procedures to attempt to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objectives. Because of the matter described in the next paragraph, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for conclusions for the years January 1, 2014, to December 31, 2017. For that reason, the results provided below are separated into the periods of January 1, 2014, to December 31, 2017, and January 1, 2018, to December 31, 2022. We believe that our audit provides a reasonable basis for our conclusions for the years January 1, 2018, to December 31, 2022.

Results for the period January 1, 2014, to December 31, 2017

The relief association's officers were no longer able to provide the following documents that we requested in order to perform our audit:

- Meeting minutes;¹
- A majority of the invoices for expenditures;²
- Cancelled checks that cleared the bank during the period January 1, 2014, to October 31, 2015; and
- Bank signature card(s) for the period January 1, 2014, to December 31, 2017.

Based on the rescinded audits' working papers and the limited information received, we found similar patterns of potential fraud during the period January 1, 2014, to December 31, 2017, that was identified by our audit work for the period January 1, 2018, through December 31, 2022. However, due to insufficient and unreliable documentation, including altered records, we could not determine a dollar amount of the potential fraud for the period January 1, 2014, to December 31, 2017.

Because of the significance of the matter described above, we have not been able to obtain sufficient, appropriate audit evidence to provide a basis for conclusions related to the audit objectives for this audit period. Accordingly, we do not express conclusions on the audit objectives for the period covering the years January 1, 2014, to December 31, 2017.

¹ Meeting minutes covering the period January 1, 2014, to December 31, 2017, were reviewed during the prior audits that we rescinded, however, the meeting minutes were no longer available during this audit.

² Invoices for expenditures during the period January 1, 2014, to December 31, 2017, were available for review during the prior audits that we rescinded, however, the majority of those invoices were no longer available during this audit.

This audit report contains the following finding applicable to the period January 1, 2014, to December 31, 2017:

- Finding No. 1 – Insufficient And Unreliable Records Severely Limited Our Ability To Complete Audit Objectives For The Period January 1, 2014, To December 31, 2017

Results for the audit January 1, 2018, to December 31, 2022

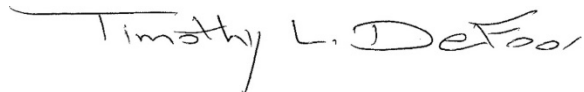
Based on our audit procedures, we conclude that, because of the significance of the matters described in Finding Nos. 2, 3, and 4 below and discussed later in this report, the relief association did not, in all significant respects, comply with applicable state laws, contracts, bylaws, and administrative 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, 2018, to December 31, 2022. 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.

This audit report contains the following findings applicable to the period January 1, 2018, to December 31, 2022:

- Finding No. 2 – Unauthorized Expenditures Due To Potential Misappropriation Of Funds
- Finding No. 3 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures
- Finding No. 4 – Undocumented Expenditures
- Finding No. 5 – Failure To Adhere To Relief Association Bylaws
- Finding No. 6 – Inadequate Minutes Of Meetings
- Finding No. 7 – Inadequate Financial Record-Keeping System
- Finding No. 8 – Failure To Disclose Related Party Transactions
- Finding No. 9 – Inappropriate Payment Of Pennsylvania Sales Tax
- Finding No. 10 – Untimely Deposit Of State Aid

We recommend the results of this audit be reviewed and investigated by the Blair County Pennsylvania District Attorney's Office and the Pennsylvania State Police to determine whether such actions by the Relief Association Officials violate the criminal laws of this Commonwealth, and for such agencies to take whatever action they may deem appropriate and necessary.

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.

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
February 6, 2025

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania,³ Section 403 of The Fiscal Code,⁴ and the Volunteer Firefighters' Relief Association Act ("VFRA Act"),⁵ 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, commonly referred to as Act 205 of 1984,⁶ 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.

³ Pa. Const. Art. VIII § 10.

⁴ 72 P.S. § 403.

⁵ 35 Pa.C.S. § 7411 *et seq.*

⁶ 53 P.S. § 895.701 *et seq.*

BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Tyrone Borough	Blair	\$26,624	\$25,549	\$25,522
Birmingham Borough	Huntingdon	\$ 387	\$ 357	\$ 355
<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Tyrone Borough	Blair	\$23,364	\$21,294	\$23,562
Birmingham Borough	Huntingdon	\$ 329	\$ 302	\$ 329
<u>Municipality</u>	<u>County</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Tyrone Borough	Blair	\$23,846	\$21,618	\$26,448
Birmingham Borough	Huntingdon	\$ 335	\$ 310	\$ 374*

* The 2022 state aid allocation received from Birmingham Borough was not deposited by the relief association until June 15, 2023, as disclosed in Finding No. 10 in this report.

Based on the relief association’s records, its total cash and investments as of December 31, 2022, were \$39,518, as illustrated below:

Cash	\$ 27,035
Fair Value of Investments	<u>12,483</u>
Total Cash and Investments	<u><u>\$ 39,518</u></u>

The relief association’s records and bank statements indicate the relief association expended \$456,533 during the period of January 1, 2014, to December 31, 2017. Evidence obtained during this audit called into question the relief association’s categorization of those expenditures; therefore, we did not list these expenditures by category within this report. We reported some potential fraud to the Pennsylvania State Police during the execution of the audit.

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2018, to December 31, 2022, were \$230,799, 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.⁷ **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	\$ 31,788
Relief benefits	225
Total Benefit Services	<u>\$ 32,013</u>
Fire Services	
Equipment purchased	\$ 80,627
Equipment maintenance	61,324
Training expenses	17,488
Total Fire Services	<u>\$ 159,439</u>
Administrative Services:	
Bond premiums	\$ 545
Officer compensation	15,000
Other administrative expenses	1,384
Total Administrative Services	<u>\$ 16,929</u>
Other Expenditures:	
Unauthorized expenditures due to potential misappropriation of assets – See Finding No. 2	\$ 8,200
Unauthorized expenditures – See Finding No. 3	3,843
Undocumented expenditures – See Finding No. 4	8,096
Pennsylvania sales tax paid – See Finding No. 9	2,279
Total Other Expenditures	<u>\$ 22,418</u>
Total Expenditures	<u>\$ 230,799</u>

⁷ Accuracy was evaluated by review of available supporting documentation for the expenditure transactions.

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:

Blazing Arrow Hook & Ladder Fire Company

Neptune Fire Company

Tyrone Fire Police

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with the prior audit finding and recommendation, as follows:

- Unauthorized Expenditure

Although the relief association received reimbursement of \$1,000 from the affiliated fire company for an unauthorized expenditure made during the audit period January 1, 2011, to December 31, 2013, audit period, the relief association again had unauthorized expenditures in subsequent years as noted in Finding Nos. 2 and 3 of the audit report.

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

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

Finding No. 1 – Insufficient And Unreliable Records Severely Limited Our Ability To Complete Audit Objectives For the Period January 1, 2014, To December 31, 2017

Condition: The relief association was unable to provide sufficient and reliable documentation for us to conclude on whether the relief association was compliant with laws and regulations for the period January 1, 2014, to December 31, 2017.

On October 26, 2020, we sent an engagement letter for audit period January 1, 2018, to December 31, 2021. While conducting the audit, we found potential fraud. For instance, the accounting journal listed a vendor and the relief association's copy of the check listed the same vendor; however, the check that cleared the bank was written to and endorsed by the former treasurer. Therefore, we reviewed the audit working papers for the two prior audit periods and found similar fraud patterns within the prior audits' working papers. As a result, on April 14, 2023, we formally withdrew our prior two audit reports for the relief association for the periods January 1, 2014, to December 31, 2015, and January 1, 2016, to December 31, 2017, which were issued in January 2017 and December 2018, respectively. Additionally, on April 14, 2023, we sent a new engagement letter to add the two prior audit periods and to add another calendar year for an audit period of January 1, 2014, to December 31, 2022.

We then interviewed current officials of the relief association, obtained and reviewed signature cards and checks that cleared the bank from November 2015 to December 2017.⁸ We also obtained some invoices for the period January 1, 2014, to December 31, 2017, and obtained a relief association financial journal for the year 2016. We noted that the 2016 financial journal provided by the current officials was significantly different than the 2016 financial journal we had retained in our prior audit working papers. For example, the new journal listed transactions as voided checks; but the journal provided in the prior audit listed a vendor. When we reviewed the check that cleared the bank, it was written to, authorized by, and endorsed by the former treasurer.

Based on the potential fraud patterns, the lack of supporting documentation retained by the relief association, inaccurate journal, and records that appeared altered or constructed, we concluded that the records for the period January 1, 2014, to December 31, 2017, were insufficient and unreliable to determine a dollar amount of the potential fraud. As a result of the insufficient and unreliable documentation, we could not conclude on our audit objective of whether the relief association was compliant with laws and regulations for the period January 1, 2014, to December 31, 2017.

⁸ Due to the bank's retention period, we were unable to review checks that cleared the bank prior to November 2015.

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: Section 7415(a) of the VFRA Act states, in part, that the relief association:

.... must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.⁹

In addition, the relief association bylaws state, in part:

- Article III, Duties of Officers, Section 3– It shall be the duty of the Secretary to **keep a true and correct account of all monies** coming into his/her hands and pay same to the Treasurer; Keep a complete record of the proceedings of all meetings of the Association, noting authorization by the membership of all financial transactions and all other pertinent business discussed at meetings. (Emphasis added.)
- Article III, Duties of Officers, Section 4– The duty of the Treasurer shall be to **keep a true and correct account of all monies** belonging to the Association which may come into his/her hands and all disbursements of the same. He/she **shall not expend any monies without the authorization** of the membership and must sign all checks along with the president. He/she **shall maintain proper records of all transactions** as required by Act 84 (Act 118 of 2010 and Act 91 of 2020). He/she shall, on an annual basis, provide the membership with a written statement of the financial condition of the Association. He/she is responsible for **maintaining records and presenting same to representatives of the Department of the Auditor General** in conjunction with their auditing duties. At the expiration of his/her term of office, he/she shall deliver to his/her successor all monies, books, papers, securities, etc., in his/her possession. (Emphasis added.)
- Article V, Handling of Funds, Section 2 - The Tyrone Volunteer Fireman's Relief Association **funds may only be used for relief purposes and expenses and investments** as authorized and approved by the office of the Auditor General, Commonwealth of Pennsylvania, in conjunction with Act 84 (Act 118 of 2010 and Act 91 of 2020). (Emphasis added.)

Cause: The relief association officials indicated that they were only able to provide what was available and bank records retained by the bank for the bank's seven year retention period. Additionally, officials also stated the former treasurer had unfettered control which provided him with the opportunity to misappropriate funds and manipulate or destroy documentation.

⁹ 35 Pa.C.S. § 7415(a).

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As a result of not having sufficient and reliable audit evidence, we could not complete or conclude on our audit objectives for the audit period January 1, 2014, to December 31, 2017. Additionally, insufficient and unreliable evidence may impact the relief association's bond coverage or their ability to seek legal action against or restitution from the potential perpetrator(s).

Recommendation: Despite the potential impact described in the Effect of this finding, we recommend that the relief association officials consider filing a claim against its bond coverage and seek legal action against and restitution for misappropriated funds based on what evidence is available.

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. 2 – Unauthorized Expenditures Due To Potential Misappropriation Of Funds

Condition: Documentation reviewed during the audit supports allegations that the relief association's former treasurer misappropriated relief association funds totaling \$8,200 during the period January 1, 2018, to December 31, 2022.

The chart below illustrates fourteen transactions during calendar year 2018 that we consider to be suspicious transactions:

Total Unauthorized Expenditures Due to Potential Misappropriation of Funds During the Period January 1, 2018, to December 31, 2018			
Category	Description of Potential Misappropriation	Amount	Checks Written
1	Checks written by the former treasurer to himself.	\$2,700	6
2	Checks written to other individuals but endorsed by the former treasurer.	\$1,500	3
3	Checks written to vendors but endorsed by the former treasurer.	\$4,000	5
	Total	\$8,200	14

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

The following descriptions provide reasons the above checks were considered suspicious and potentially misappropriated:

- Category 1: A relief association official indicated at least four of the six checks written to pay the former treasurer had his signature that he believed was forged as the required second authorized signature on the checks.
- Category 2: The three checks had a journal entry written to an individual other than the former treasurer, but the cleared checks were actually written to and endorsed by the former treasurer.
- Category 3: These five checks had journal entries listed as a purchase from a vendor with a supporting invoice. However, due to the similarity between the invoices and the simplicity of the invoices, the invoices appeared suspicious. Therefore, we contacted three of the four vendors that made up the five purchases. Each vendor we contacted confirmed the associated invoice(s) were not authentic. Additionally, each of the associated checks that cleared the bank documented that the checks were written to, signed by, and endorsed by the former treasurer.

The evidence indicates that the former treasurer posted fake journal entries, wrote checks for non-relief association purposes that were payable to himself, and created invoices for non-existent expenditures. These activities, along with potential forgery of the second required signature on checks indicates that the former treasurer overrode internal controls in place for two authorized individuals authorizing checks and purchases as required in the relief association's bylaws.

Criteria: Section 7415(c)(3) of the VFRA Act states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.¹⁰

In addition, the relief association bylaws state, in part:

- Article III, Duties of Officers, Section 3– It shall be the duty of the Secretary to **keep a true and correct account of all monies** coming into his/her hands and pay same to the Treasurer; Keep a complete record of the proceedings of all meetings of the Association, noting authorization by the membership of all financial transactions and all other pertinent business discussed at meetings. (Emphasis added.)

¹⁰ 35 Pa.C.S. § 7415(c)(3).

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

- Article III, Duties of Officers , Section 4– The duty of the Treasurer shall be to **keep a true and correct account of all monies** belonging to the Association which may come into his/her hands and all disbursements of the same. He/she **shall not expend any monies without the authorization of the membership and must sign all checks along with the president.** He/she **shall maintain proper records of all transactions** as required by Act 84 (Act 118 of 2010 and Act 91 of 2020). He/she shall, on an annual basis, provide the membership with a written statement of the financial condition of the Association. He/she is responsible for **maintaining records and presenting same to representatives of the Department of the Auditor General** in conjunction with their auditing duties. At the expiration of his/her term of office, he/she shall deliver to his/her successor all monies, books, papers, securities, etc., in his/her possession. (Emphasis added.)

- Article V, Handling of Funds, Section 2 – The Tyrone Volunteer Fireman's Relief Association **funds may only be used for relief purposes and expenses and investments** as authorized and approved by the office of the Auditor General, Commonwealth of Pennsylvania, in conjunction with Act 84 (Act 118 of 2010 and Act 91 of 2020). (Emphasis added.)

Prudent business practices dictate checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, at least two, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: Current relief association officials alleged fraud and misuse of checks by the former treasurer because the former treasurer had unfettered control over the relief association's records, bank accounts, journals, and cash assets, which allowed the former treasurer to alter and/or forge checks, create fake invoices, and misrepresent accounting journals.

Effect: As a result of the above potential misappropriation of funds, \$8,200 of relief association monies were expended for unauthorized and allegedly fraudulent purposes, which reduced funds available for relief association purposes. Furthermore, the relief association's future state aid allocations may be withheld until the relief association complies with the finding recommendation.

Recommendation: We recommend that the relief association officials seek reimbursement of \$8,200 for the misappropriation of funds in calendar year 2018 and also consider the commencement of a bond claim and legal proceedings.

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.

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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. 3 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures

Condition: The relief association expended funds for unauthorized items during the period January 1, 2018, to December 31, 2022. These items are distinguished from the transactions in Finding No. 2's unauthorized expenditures because the purchases did not appear fraudulent.

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
12/15/18	0007	LED headlights for non-relief vehicle	\$ 899
10/04/19	2261	Pediatric mannequins	424
01/24/19	2262	Headlights for non-relief vehicle	1,798
04/22/22	2383	Training instructor expenses	478
04/22/22	2384	Hotel stay for training instructor	244
Total			<u>\$ 3,843</u>

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

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.
- (17) To pay reasonable expenses actually and necessarily incurred for attending bona fide emergency medical technician or paramedic training schools.
- (21) To pay for facilities for storage of emergency vehicles and equipment, training and meetings.¹¹

¹¹ 35 Pa.C.S. § 7416(f).

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

In addition, Section 7418(b) of the VFRA Act states:

- (b) Findings -- If the Auditor General finds that money received by a volunteer firefighters' relief association has been expended for a purpose other than one authorized by this subchapter, the commissioner, upon receiving notice of the finding from the auditor general, shall decline to approve payment to the volunteer firefighters' relief association until the improperly expended amount has been reimbursed to the relief association fund.¹²

In addition, the relief association bylaws state, in part:

Article V, Handling of Funds, Section 2 – The Tyrone Volunteer Fireman's Relief Association funds may only be used for relief purposes and expenses and investments as authorized and approved by the Office of Auditor General.

Costs associated with the purchase of a hotel stay and other expenses for a training instructor that is a non-member of the relief association, pediatric mannequins, and headlights for a non-relief vehicle do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

Cause: The 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. Furthermore, the relief association's future state aid allocations may be withheld until the relief association complies with the finding recommendation.

Recommendation: We recommend that the relief association be reimbursed \$3,843 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f)¹³ of the VFRA Act to aid them in determining the propriety of future expenditures. All supporting documentation verifying the receipt of reimbursement for unauthorized expenditures should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 316-E Finance Building, Harrisburg, PA 17120. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

¹² 35 Pa.C.S. § 7418(b).

¹³ 35 Pa.C.S. § 7416(f).

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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. 4 – Undocumented Expenditures

Condition: In addition to the potential fraudulent transactions in Finding No. 2 and unauthorized purchases in Finding No. 3, we also found the following expenditures that had no supporting documentation that were made during the period January 1, 2018, to December 31, 2022:

<u>Date</u>	<u>Check No.</u>	<u>Expenditure Description</u>	<u>Amount</u>
02/02/18	2217	Administrative expense	\$ 129
07/16/18	2254	Maintenance expense	9
01/24/19	2264	Equipment purchase	211
04/05/19	2274	Equipment purchase	500
04/20/19	2279	Equipment purchase	899
06/25/19	2283	Equipment purchase	403
12/31/19	2310	Training expense	1,500
07/21/20	2319	Equipment purchase	838
09/02/20	2321	Equipment purchase	187
07/01/21	2355	Training expense	450
08/10/21	2357	Equipment purchase	233
01/03/22	2371	Training expense	1,200
09/28/22	2391	Training expense	175
11/18/22	2402	Equipment purchase	1,362
		Total	\$ <u>8,096</u>

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Criteria: The relief association bylaws state, in part:

Article III, Duties, Section 4 – **The duty of the Treasurer** shall be to keep a true and correct account of all monies belonging to the Association which may come into his/her hands and all disbursements of the same. He/she shall not expend any monies without the authorization of the membership and must sign all checks along with the president. He/she **shall maintain proper records of all transactions.** He/she is responsible for **maintaining records and presenting same to representatives of the Department of the Auditor General** in conjunction with their auditing duties. At the expiration of his/her term of office, he/she shall deliver to his/her successor all monies, books, papers, securities, etc., in his/her possession. (Emphasis added.)

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.¹⁴

Prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: The relief association officials acknowledged that the former treasurer did not maintain the required documentation and the new treasurer inherited an unorganized financial record keeping system and his lack of experience resulted in inadequate documentation. The officials stated the new treasurer was also learning the position while implementing a new record keeping system.

Effect: Lack of supporting documentation, such as invoices, itemized receipts, and detailed minutes of meetings of formal approval for all financial expenditures, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of the VFRA Act.¹⁵ In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors and funds being misappropriated. Furthermore, the relief association future state aid may be withheld until there is full compliance with the finding recommendation.

¹⁴ 35 Pa.C.S. § 7418(a).

¹⁵ 35 Pa.C.S. § 7416(f).

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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 in the alternative, that the relief association be reimbursed \$8,096 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 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. 5 – Failure To Adhere To Relief Association Bylaws

Condition: The relief association did not adhere to numerous provisions in the association's bylaws during the period January 1, 2018, to December 31, 2022. Specifically:

- The relief association did not conduct the required relief association meetings or maintain detailed minutes of meetings; (See Finding No. 6)
- The relief association did not have an audit committee;
- The relief association did not ensure funds spent were for authorized expenditures; (See Finding Nos. 2 and 3)
- The relief association did not maintain supporting documentation for all transactions or an adequate financial record-keeping system; (See Finding Nos. 4 and 7)
- The relief association did not maintain the required minimum balance of \$50,000 in cash and investments.

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Criteria: The relief association's bylaws state, in part:

- Article I, Meetings, Section 1 – The stated meeting of the Tyrone Volunteer Firemen's Relief Association shall be held on the third Sunday of the following months: January, March, May, July, September, November, and December at 1:00 P.M.
- Article III, Duties of Officers, Section 3 – It shall be the duty of the Secretary to keep a true and correct account of all monies coming into his/her hands and pay same to the Treasurer; Keep a complete record of the proceedings of all meetings of the Association, noting authorization by the membership of all financial transactions and all other pertinent business discussed at meetings. The Secretary shall maintain an updated copy of the By-Laws and make same available to the membership.
- Article III, Duties of Officers, Section 4 - The duty of the Treasurer shall be to keep a true and correct account of all monies belonging to the Association which may come into his/her hands and all disbursements of the same. He/she shall not expend any monies without the authorization of the membership and must sign all checks along with the president. He/she shall maintain proper records of all transactions.
- Article III, Duties of Officers, Section 6 – An auditing committee of three shall be appointed annually in December to audit the accounts of the Association and to report to the membership the results of the same.
- Article V, Handling of Funds, Section 2 – The Tyrone Volunteer Fireman's Relief Association funds may only be used for relief purposes and expenses and investments as authorized and approved by the Office of Auditor General.
- Article V, Handling of Funds, Section 3 – At no[sic] time shall the balance of the Tyrone Volunteer Fireman's Relief Association be drawn below \$50,000.

Prudent business practice dictates that the relief association should adhere to all provisions in the relief association's bylaws to ensure that the relief association conducts its affairs with proper authorization and with adequate internal controls.

Cause: Relief association officials acknowledged they did not follow bylaws or have an audit committee. The officials did not provide a reason for its noncompliance.

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Effect: As a result of the relief association not following the mandatory provisions in the bylaws, the relief association may have conducted its affairs improperly, without proper authorization, and without an adequate system of internal controls, which allowed internal controls to be overridden and alleged misappropriation of assets to remain undetected for several years. (See Finding No. 2.)

Recommendation: We recommend that the relief association officials review the bylaws governing their organization, make modifications as deemed appropriate, and establish guidelines and procedures to comply with the bylaws in order to assure that the association conducts its affairs with proper authorization and in compliance with 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 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. 6 – Inadequate Minutes Of Meetings

Condition: For the period January 1, 2018, to December 31, 2022, the relief association failed to maintain detailed minutes of meetings and failed to hold the required seven meetings per year. During the five year period, only calendar year 2019 had the required seven relief association meetings and of the 35 required meetings only 24 were held. The relief association's minutes of meetings did not address all financial-related transactions, contain a detailed attendance record or a sign-in sheet, and document who made up the quorum of members. Minutes of meetings were not signed and dated by the recording officer. Additionally, the existing bylaws of the relief association contains language pursuant to prior law, Act 84 of June 11, 1968 (Volunteer Firefighters' Relief Act) rather than the amended VFRA Act (Act 118 of 2010 and Act 91 of 2020).¹⁶

¹⁶ 35 Pa.C.S. § 7411, *et seq.*

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Criteria: Section 7415(a) of the VFRA Act states, in part, that the relief association:

. . . must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.¹⁷

The relief association's bylaws state, in part:

- Article I, Meetings, Section 1– The stated meeting of the Tyrone Volunteer Firemen's Relief Association shall be held on the third Sunday of the following months: January, March, May, July, September, November, and December at 1:00 P.M.
- Article I, Meetings, Section 4 – Any seven members of the Association shall constitute a quorum to transact business of the Association.
- Article III, Duties of Officers, Section 3 – It shall be the duty of the Secretary to keep a true and correct account of all monies coming into his/her hands and pay same to the Treasurer; Keep a complete record of the proceedings of all meetings of the Association, noting authorization by the membership of all financial transactions and all other pertinent business discussed at meetings. The Secretary shall maintain an updated copy of the By-Laws and make same available to the membership.

In addition, prudent business practice dictates that the relief association officials should ensure that meeting minutes are signed and dated and that the relief association updates and maintains its bylaws to reflect the current requirements of the VFRA Act.

Cause: The relief association officials indicated that they were unaware that maintaining detailed minutes of meetings was required by the VFRA Act and the relief association's bylaws. In addition, the relief association officials did not provide a reason why all financial transactions were not addressed within the meeting minutes, why the Secretary of the Relief Association did not sign and date the meeting minutes, why all required meetings were not held, why all meeting minutes did not document attendance and quorum, or why the bylaws were not updated to meet the requirements of the VFRA Act.

¹⁷ 35 Pa.C.S. § 7415(a).

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Effect: Without signed and dated detailed minutes that document a quorum, and all financial transactions discussed, evidence does not exist that relief association business was presented before the membership for approval. Additionally, not holding the required number of meetings, provides less transparency and may circumvent approvals needed for pertinent business decisions as required in the relief association bylaws.

Recommendation: We recommend that the relief association officials hold all required meetings and maintain detailed minutes of meetings as required by the VFRA Act and the relief association's bylaws. We recommend the minutes contain evidence of the discussion and approval of all financial-related business conducted by the relief association and whether quorum requirements were met. We also recommend that the relief association officials ensure that all meeting minutes are signed and dated by the Secretary of the Relief Association to ensure the validity of the meeting minutes. In addition, we recommend that the relief association officials remove the language referring to Act 84 by updating the bylaws to meet the requirements set forth in the VFRA Act (Act 118 of 2010 and Act 91 of 2020).¹⁸ 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. 7 – Inadequate Financial Record-Keeping System

Condition: During the period January 1, 2018, to December 31, 2022, the relief association's financial record-keeping system did not establish adequate accounting procedures to allow the membership to effectively monitor the relief association's financial operations. The following are the noted deficiencies:

- An accurate journal was not maintained to record the receipts and disbursements of the relief association.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Documentation to support various expenditures was not available for examination at the time of the audit. (See Finding No. 4.)

¹⁸ 35 Pa.C.S. § 7411, *et seq.*

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 7 – (Continued)

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

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.¹⁹

In addition, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association funds and other assets.

Cause: Relief association officials indicated that the former treasurer did not keep accurate dates on checks and on the journals. The relief association indicated discrepancies by the new treasurer were due to the inherited unorganized financial record keeping system and his lack of experience while implementing a new record keeping system.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We recommend that the relief association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations. 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. 8 – Failure To Disclose Related Party Transactions

Condition: Relief association officials failed to disclose related party transactions for trainings that were held during the period January 1, 2018, to December 31, 2022. The relief association conducted business with a training vendor owned by a relief association officer. We noted that there was no evidence documented in the minutes of the meetings that the officer told the membership that he was a related party and that he would abstain from voting for the approval of these types of transactions. Our auditor's documented seven transactions for various trainings totaling \$3,675 that were related party transactions with the relief association officer.

¹⁹ 35 Pa.C.S. § 7415(a).

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 8 – (Continued)

Criteria: A related party transaction occurs when the relief association does business with a vendor that employs or is owned by a relief association officer or a member of an officer's immediate family. Such a transaction may provide a less than arm's length financial benefit to such officer or member of such officer's immediate family through a commission or a profit from a sale.

Best business practices dictate that all potential related party transactions should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, all officers and/or members involved with a business that is party to the related party transaction should abstain from all votes concerning such transactions.

Cause: Relief association officials indicated that they were unaware that related party transactions should be disclosed to the membership as well as the need for the relief association officer to abstain from voting on related personal business.

Effect: The failure to properly disclose related party transactions may create potential conflicts of interest which could result in the relief association being involved in less than arm's length financial transactions.

Recommendation: We recommend that the relief association officials take the actions necessary to eliminate the appearance of conflicts of interests. Actions should include, but are not limited to, written notification to the relief association membership for each related party transaction, and the abstention from discussion and voting by the relief association officials who are involved with or are the owners of businesses that have business dealings with the relief association. These actions should be documented in the relief association's minutes. Furthermore, the relief association officials should closely review all related party transactions to ensure that all transactions are at arm's length, i.e., the cost of the services rendered by the firm is competitive and the services are provided.

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.

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 9 – Inappropriate Payment Of Pennsylvania Sales Tax

Condition: The relief association paid \$2,279 of Pennsylvania sales tax to vendors during the period January 1, 2018, to December 31, 2022, from which the relief association purchased equipment. Pennsylvania sales tax payments would not have been required if the relief association had provided its sales tax exemption number to the vendors.

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.²⁰

Cause: Relief association officials acknowledged that they paid sales tax and that they were unaware of the necessity to provide their state sales tax exemption number to all vendors from which the relief association purchases equipment.

Effect: As a result of the relief association's failure to provide its sales tax exemption number to all vendors, the relief association paid inappropriate Pennsylvania sales tax on its purchases, which reduced the funds otherwise available for general operating expenditures and for investment purposes.

Recommendation: We recommend that the relief association officials seek a refund of the sales tax paid, in the amount of \$2,279, by filing an appeal form (REV-65BA) with the Pennsylvania Department of Revenue's Board of Appeals. In addition, we recommend that, in the future, relief association officials furnish its state sales tax exemption number to all vendors from which the relief association purchases equipment. We recommend the relief association update its bylaws to address who is responsible for ensuring the use of the sales tax exemption. 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.

²⁰ 35 Pa.C.S. § 7415(e).

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 10 – Untimely Deposit Of State Aid

Condition: The relief association did not deposit the 2022 state aid allocation it received from Birmingham Borough, in the amount of \$374, until June 15, 2023. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2022, who forwarded this state aid to the relief association on October 9, 2022, 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);²¹ however, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

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.²²

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 stated that the state aid funds were initially put into the wrong account.

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 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 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.

²¹ 53 P.S. § 895.706(b)(2).

²² *Id.*

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 2, 3, and 4 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are 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.

THE TYRONE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable Peter Weeks
Blair County District Attorney

Pennsylvania State Police
Troop G - Hollidaysburg

The Tyrone Volunteer Firemen's Relief Association Governing Body:

Mr. Joseph S. Gault
President

Mr. Harry S. Dillion, III
Secretary

Mr. Alan Walls
Treasurer

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

Ms. Ardean Latchford
Secretary
Tyrone Borough

Ms. Julie Brenneman
Secretary
Birmingham Borough

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.