

COMPLIANCE AUDIT

The Pottsville Firemen's Relief Trust Association

Schuylkill County, Pennsylvania

For the Period

January 1, 2020, to December 31, 2022

December 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. John M. Messer, Jr., President
The Pottsville Firemen's Relief
Trust Association
Schuylkill County

We have conducted a compliance audit of The Pottsville Firemen's Relief Trust Association (relief association) for the period January 1, 2020, 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 objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective identified above and was not, nor was it required to be, conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief association funds complies with applicable state laws, contracts, bylaws, and administrative procedures, including the safeguarding of assets. Relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, for the period January 1, 2020, to December 31, 2022, 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 – Unauthorized Expenditures

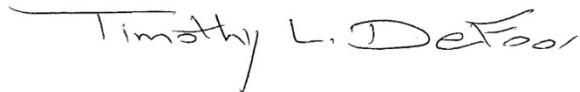
Finding No. 2 – Duplicate Payments

Finding No. 3 – Untimely Receipt And Deposit Of State Aid

Finding No. 4 – Insufficient Surety (Fidelity) Bond Coverage

We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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 horizontal line above the first name.

Timothy L. DeFoor
Auditor General
November 9, 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 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>2020</u>	<u>2021</u>	<u>2022</u>
Mechanicsville Borough	Schuylkill	\$ 1,968*	\$ 1,759	\$ 2,161
Mount Carbon Borough	Schuylkill	**	\$ 345	\$ 421
North Manheim Township	Schuylkill	\$ 4,335	\$ 3,869	\$ 4,990
Pottsville City	Schuylkill	\$59,361	\$52,419	\$60,633

* The 2020 state aid allocation received from Mechanicsville Borough was not deposited by the relief association until January 4, 2021, as disclosed in Finding No. 3 in this report.

** During the current audit period, the relief association did not receive an allocation of state aid from Mount Carbon Borough in 2020. Municipalities have sole discretion to distribute their annual allocation of state aid received to any relief association providing fire service to the municipality.

Based on the relief association’s records, its total cash and investments as of December 31, 2022, were \$451,501, as illustrated below:

Cash	\$ 59,684
Fair Value of Investments	<u>391,817</u>
Total Cash and Investments	<u><u>\$ 451,501</u></u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$1,352,505, 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	\$ 7,030
Death benefits	120,000
Relief benefits	3,340
Total Benefit Services	<u>\$ 130,370</u>

Fire Services:

Equipment purchased	\$ 151,312
Equipment maintenance	15,477
Training expenses	7,727
Total Fire Services	<u>\$ 174,516</u>

Administrative Services:

Bond premiums	\$ 966
Officer compensation	9,000
Other administrative expenses *	14,872
Total Administrative Services	<u>\$ 24,838</u>

Total Investments Purchased	<u>\$ 850,379</u>
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Other Expenditures:

Payments on loan	\$ 170,230
Unauthorized expenditures – See Finding No. 1	1,262
Duplicate payments – See Finding No. 2	910
Total Other Expenditures	<u>\$ 172,402</u>

Total Expenditures	<u>\$ 1,352,505</u>
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* A majority of the other administrative expenses represent monthly custodial fees, monthly meeting fees, and a three-year subscription to IamResponding.

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

BACKGROUND – (Continued)

The volunteer firefighters' relief association and the affiliated fire service organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

American Hose Company No. 2

Good Intent Fire Company No. 1

Good Will Fire Company No. 4

Humane Fire Company No. 1

Phoenix Fire Engine Company No. 2

West End Fire Company No. 7

Yorkville Hose and Fire Company No. 1

THE POTTSVILLE FIREMEN’S RELIEF TRUST ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

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

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
03/25/2020	40890	Tires for affiliated fire company owned vehicle	\$ 640
12/16/2020	42712	Paid firefighter’s insurance	311
01/12/2022	45884	Paid firefighter’s insurance	<u>311</u>
Total			<u>\$ 1,262</u>

In addition, subsequent to the audit period, the relief association made a \$16 unauthorized expenditure, which was issued by the trust administrator on January 1, 2023, towards the payment of an insurance premium for a paid firefighter.

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.
- (8) To contribute to or to purchase contracts of insurance which will contribute to the cost of rehabilitating and retraining volunteer firefighters who, by reason of their participation in the fire service, have suffered a major impairment of the ability to continue their vocation.

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.

THE POTTSVILLE FIREMEN'S RELIEF TRUST ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Costs associated with the purchase of fire company owned equipment and paid firefighter's insurance does not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

Cause: The relief association officials believe the paid firefighter is entitled to insurance benefits. They did not provide a reason for the purchase of tires for a fire company owned vehicle.

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. In addition, because of stipulations within the VFRA Act, failure to obtain reimbursement of the improperly expended funds will result in a withholding of future state aid fund disbursements until the improperly expended fire relief association monies identified in the finding have been reimbursed to the relief association.

Recommendation: We recommend that the relief association be reimbursed \$1,278 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of the VFRA Act to aid them in determining the propriety of future expenditures. 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.

Management's Response: Relief association management partially 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 \$640 on August 14, 2023 for the unauthorized expenditure for the purchase of tires. Relief association management did not agree with the remaining \$638 for paid firefighter insurance and stated that the member is also a volunteer outside of being a paid firefighter, so should be entitled to this.

THE POTTSVILLE FIREMEN'S RELIEF TRUST ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Auditor's Conclusion: We reviewed documentation verifying that the partial reimbursement of \$640 was received. The VFRA Act authorizes state aid expenditures for purposes of providing safeguards for life, health, and safety for volunteer firefighters to ensure their availability to participate in the fire service as stated above in the Criteria. In addition, page 7 of the Management Guidelines also indicates the following, in part:

The Act further states that a person does not lose status as a volunteer firefighter solely because he or she may also be a paid firefighter, so long as the person is acting within the scope of his or her responsibilities as a member of a volunteer fire company at the pertinent time and not within the scope of his or her responsibilities as a paid firefighter (Section 7412). A paid firefighter should not perform the same duties at the same company for which they are paid as a volunteer firefighter as that individual could lose their status as a volunteer firefighter under the Act and potentially subject the company to both state and federal wage payment laws.

The three expenditures made for a career paid firefighter were determined to be unauthorized and not in compliance with the aforementioned purpose based on audit documentation obtained and reviewed during and subsequent to the audit. We continue to recommend that the relief association be reimbursed for the remaining \$638 for the unauthorized expenditures. Full compliance for expenditures will be subject to verification through our next audit.

Finding No. 2 – Duplicate Payments

Condition: On August 16, 2022, the relief association expended \$595 for equipment. On August 17, 2022, the relief association erroneously made a duplicate payment for the same \$595. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Also, On April 26, 2022, the relief association expended \$315 for equipment. On the same date, and using the same check, the relief association erroneously made a duplicate payment for the same \$315. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices and to ensure duplicate payments are recouped.

Cause: The relief association stated that the bank made the duplicate payments through the relief association's trust account.

THE POTTSVILLE FIREMEN'S RELIEF TRUST ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: As a result of the erroneous payments, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$910 for the erroneous duplicate payments. The relief association officials should consider contacting the vendor to recover the duplicate payments. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association 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 \$910 for the duplicate payments on August 14, 2023.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$910 was received. Compliance for duplicate payments made during the next audit period will be subject to verification through our next audit.

Finding No. 3 – Untimely Receipt And Deposit Of State Aid

Condition: The relief association did not deposit the 2020 state aid allocation it received from Mechanicsville Borough, in the amount of \$1,968, until January 4, 2021. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 21, 2020; however, municipal officials failed to forward the state aid allocation to the relief association until December 10, 2020, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). In addition, 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.

THE POTTSVILLE FIREMEN'S RELIEF TRUST ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, prudent business practice dictates that the relief association officials should establish adequate internal control procedures to ensure the funds are obtained and deposited in a timely manner.

Cause: The relief association officials stated that Mechanicsville Borough did not disburse the check until December of 2020.

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds 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 receipt and 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.

Finding No. 4 – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$50,000; however, as of December 31, 2022, the relief association's cash assets totaled \$59,684.

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.

THE POTTSVILLE FIREMEN'S RELIEF TRUST ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Cause: Relief association officials failed to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with the VFRA Act provisions and stated that they were unaware that the cash balance exceeded the policy coverage amount.

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

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by the VFRA Act. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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 increased their bond coverage to \$60,000 on July 27, 2023.

Auditor's Conclusion: We reviewed documentation verifying that the bond coverage was increased to \$60,000. Compliance for sufficient bond coverage will be subject to verification through our next audit.

THE POTTSVILLE FIREMEN'S RELIEF TRUST ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Pottsville Firemen's Relief Trust Association Governing Body:

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Mr. Jason G. Witmier
Vice President

Mr. Gary W. Witmier
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THE POTTSVILLE FIREMEN'S RELIEF TRUST 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. Nancy Roshannon
Secretary
Mechanicsville Borough

Ms. Mandy Gerhard
Secretary
Mount Carbon Borough

Ms. Tami M. Stump
Secretary
North Manheim Township

Ms. Lisa M. Shuman
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