

COMPLIANCE AUDIT

Chester Hill Firemen's Relief Association Clearfield County, Pennsylvania For the Period January 1, 2021, to December 31, 2022

February 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Jason Hummel, President
Chester Hill Firemen's Relief Association
Clearfield County

We have conducted a compliance audit of the Chester Hill Firemen's Relief Association (relief association) for the period January 1, 2021, to December 31, 2022. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the 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 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 objectives. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain independent confirmations of the cash balance and the investment balance directly from the financial institutions. Therefore, while the relief association provided statements that indicated that, as of December 31, 2022, the relief association had a cash balance of \$15,652 and an investment balance with a fair value of \$5,366, we were not able to verify those cash and investment balances.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2021, 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 – Failure To Maintain A Complete And Accurate Equipment Roster

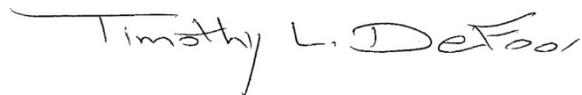
Finding No. 2 – Failure To Maintain A Complete And Accurate Membership Roster

Finding No. 3 – Inadequate Minutes Of Meetings

Finding No. 4 – Failure To Define Discretionary Benefits And Inadequate Relief Association Bylaws

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.



Timothy L. DeFoor
Auditor General
January 31, 2024

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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>2021</u>	<u>2022</u>
Chester Hill Borough	Clearfield	\$3,504	\$4,073
Decatur Township	Clearfield	\$8,476	*

* During the current audit period, the relief association did not receive an allocation of state aid from Decatur Township in 2022. 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 \$21,018, as illustrated below:

Cash	\$ 15,652
Fair Value of Investments	<u>5,366</u>
Total Cash and Investments	<u>\$ 21,018</u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2021, to December 31, 2022, were \$46,933, 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	\$ 3,568
Death benefits	500
Total Benefit Services	<u>\$ 4,068</u>

Fire Services:

Equipment purchased	\$ 38,810
Equipment maintenance	749
Training expenses	2,800
Total Fire Services	<u>\$ 42,359</u>

Administrative Services:

Bond premiums	<u>\$ 506</u>
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Total Expenditures	<u><u>\$ 46,933</u></u>
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The volunteer firefighters’ relief association and the affiliated fire service organization are separate, legal entities. The relief association is affiliated with the following fire service organization:

Chester Hill Hose Co.

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

CHESTER HILL FIREMEN'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:

- Untimely Deposit Of State Aid

By timely depositing all income received.

CHESTER HILL FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit, this listing was incomplete and did not accurately identify all the equipment owned by the relief association. The relief association purchased \$38,810 of equipment during the current audit period, but the equipment for \$8,630 of those purchases was not properly accounted for on the relief association's equipment roster. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association and perform and document an annual physical inventory of all operable equipment in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

Cause: Relief association officials did not realize these items were not on the equipment roster and did not provide a reason why a physical inventory was not conducted.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

CHESTER HILL FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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: Compliance will be subject to verification through our next audit.

Finding No. 2 – Failure To Provide A Complete And Accurate Membership Roster

Condition: The relief association officials did not provide a complete and accurate roster of relief association members.

Criteria: Relief association officials should maintain/provide a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members' mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials forgot to send a copy for audit purposes.

Effect: The failure to maintain/provide a comprehensive membership roster could result in the payment of benefits to nonmembers or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend that the relief association officials continue to maintain and provide a complete and accurate roster of the relief association's membership, as directed. For additional 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.

CHESTER HILL FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Minutes Of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings as required by the VFRA Act and the relief association's bylaws. Specifically, the relief association's minutes did not address all financial-related transactions that occurred during the audit period. In addition, the meeting minutes were not signed and dated by the recording officer.

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.

The relief association's bylaw amendment at Article III, Section 3 states, in part:

Secretary: This position shall have the duties of keeping a true record of the proceedings of every meeting in the minutes. The minutes shall note all authorization by the membership of all association financial transactions and all other pertinent business discussed at the meetings.

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 financial transactions were not addressed within the meeting minutes and why the Secretary of the Relief Association did not sign and date the meeting minutes.

Effect: Without maintaining detailed minutes of meetings that are signed and dated, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend that the relief association officials maintain detailed minutes of meetings as required by the VFRA Act and the relief association's bylaws, evidencing the discussion and approval of all financial-related business conducted by the relief association. The minutes should include an adequate record of all financial-related business conducted by the relief association. 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. 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.

CHESTER HILL FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure To Define Discretionary Benefits And Inadequate Relief Association Bylaws

Condition: The relief association did not formally define discretionary benefits that were being offered to its members. Although the relief association's bylaws address the amount of death benefits to be paid, during the current audit period, the relief association paid death benefits to two members totaling \$500, which is an amount greater than what is stipulated in their bylaws. Although these expenditures were authorized by the VFRA Act and the relief association's bylaws, the death benefit amount specified in the bylaws and the amount of death benefits offered should be equal.

In addition, although the relief association made the attempt to separate the positions of Secretary and Treasurer in 2011, the bylaws still refer to the combined position of Secretary-Treasurer throughout.

Furthermore, the existing bylaws of the relief association contains language to conduct business pertaining to the disbursement, investment, and purchase of funds that is based on Act 84 of June 11, 1968. The relief association has not updated the bylaws to govern their organization to meet the requirements set forth in the VFRA Act (Act 118 of 2010 and Act 91 of 2020).

Criteria: Section 7413 of the VFRA Act states that funds shall be available:

- (3) For payment, either by insurance or by operation of a beneficial fund, of a sum certain to designated beneficiaries of a participating member following the death of a member for any cause and to establish criteria which members must meet in order to qualify as participants in a death benefit fund. (Emphasis added.)

- (5) Financial assistance to volunteer firefighters who, after having actively participated in the fire service for a specified minimum term, are no longer physically able to continue participation and are in need of financial assistance. (Emphasis added.)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, disability benefits, officer compensation, or any other type of discretionary benefit provided by the VFRA Act, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal relief association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well as the criteria to be met in order to receive the benefits.

CHESTER HILL FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

The relief association's bylaws at Article V, Section 1 states:

Funds of this association shall not be expended for any purpose other than those authorized by the provisions of Act 84 and the association bylaws. All expenditures must be approved by the majority vote at an association meeting and duly recorded in the minutes.

The relief association's bylaws at Article VI, Section 1 states, in part:

Funds of this association may be invested in any security authorized by the provisions of Section 6 (c) of Act 84.

In addition, the relief association's bylaws amendment of Article VII, Section 2 states:

After a reading of the proposed amendment at a regular meeting of the Relief Association, it was properly moved and second that the amount of Death Benefit be increased to \$200.00 (Two Hundred Dollars) from the amount of \$100.00.

Furthermore, the relief association's bylaws at Article VIII, Section 1 states:

The signatures of at least two officers, one being that of the Sec-Treas., shall be required for the issuance of relief association checks, withdrawl [*sic*] from the association savings account, the redemption of any relief association investment issued by the association.

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

Effect: The relief association's failure to ensure the bylaws and the discretionary benefits offered agree prevents the membership from being aware of the types and amounts of benefits offered to its membership, increases the risk of unauthorized expenditures, and could also lead to benefits not being applied equally to all members of the relief association. In addition, as a result of the relief association not updating the bylaws to reflect the current officer positions and meet the appropriate requirements, the relief association may have conducted its affairs without proper authorization.

CHESTER HILL FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend that the relief association officials ensure discretionary benefits are formally defined in the bylaws and agree with the amounts being offered to its membership. In addition, we also recommend the relief association officials amend their bylaws to separate the position of secretary and treasurer. Furthermore, all approved discretionary benefits should be in accordance with provisions of the VFRA Act. Finally, we recommend that the relief association officials remove the language referring to Act 84 by updating the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act (Act 118 of 2010 and Act 91 of 2020). 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.

CHESTER HILL FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Chester Hill Firemen's Relief Association Governing Body:

Mr. Jason Hummel
President

Mr. Tyler English
Vice President

Mr. Charles W. Smith
Secretary

Mr. Timothy Thompson
Treasurer

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

Ms. Diann Turner
Secretary
Chester Hill Borough

Ms. Trudy Eckberg
Secretary
Decatur Township

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.