

COMPLIANCE AUDIT

Clover Fire Company Fireman's Relief Association

Schuylkill County, Pennsylvania

For the Period

January 1, 2019, to December 31, 2022

June 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Donald G. Gretskey, President
Clover Fire Company Fireman's
Relief Association
Schuylkill County

We have conducted a compliance audit of the Clover Fire Company Fireman's Relief Association (relief association) for the period January 1, 2019, to December 31, 2022. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the findings contained in our prior audit report.
2. To determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds.

Our audit was limited to the areas related to the objectives identified above and was not, nor was it required to be, conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

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

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

- The relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below, and discussed in the Status of Prior Findings section of this 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 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 2 – Undocumented Expenditures

Finding No. 3 – Failure To Maintain A Complete And Accurate Equipment Roster

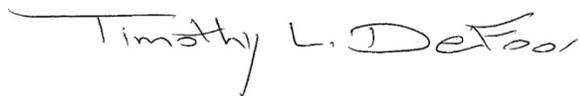
Finding No. 4 – Failure To Maintain Minutes Of Meetings

Finding No. 5 – Inadequate Financial Record-Keeping System

Finding No. 6 – 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.



Timothy L. DeFoor
Auditor General
May 12, 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 association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws, and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations that is or are recognized as providing the service to the municipality.

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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Cass Township	Schuylkill	\$3,742	\$3,790	\$3,117	\$3,636

Based on the relief association’s records, its total cash as of December 31, 2022, was \$22,986, as illustrated below:

Cash	<u><u>\$ 22,986</u></u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2022, were \$52,019, 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	<u>\$ 5,898</u>
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Fire Services:

Equipment purchased	<u>\$ 1,200</u>
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Other Expenditures:

Return of erroneous deposits *	\$ 34,390
Undocumented expenditures	<u>10,531</u>
Total Other Expenditures	<u>\$ 44,921</u>

Total Expenditures	<u><u>\$ 52,019</u></u>
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* During the audit period, the relief association made erroneous deposits into the relief association’s savings account of funds belonging to the affiliated fire company. On August 6, 2020, and January 13, 2022, the relief association returned the erroneous deposits of \$11,650 and \$22,740 to the affiliated fire company.

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 organization are separate, legal entities. The relief association is affiliated with the following fire service organization:

Clover Fire Company

CLOVER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Untimely Deposit Of State Aid

By timely depositing all income received.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Insufficient Surety (Fidelity) Bond Coverage

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

CLOVER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond on the disbursing officer in a sufficient amount to cover the relief association's total cash assets throughout all months of the audit period. The relief association's cash balance exceeded their Surety (Fidelity) bond coverage amount of \$25,000 in 17 out of 48 months of the audit period. As of December 31, 2022, the relief association's cash assets totaled \$22,986.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(c)(4) of the VFRA Act states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: According to relief association officials, the cash balance was higher than anticipated because equipment purchases were not made as a result of COVID-19.

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 again 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.

CLOVER FIRE COMPANY FIREMAN’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: We are concerned by the relief association’s failure to correct this previously reported audit finding by the relief association not maintaining adequate coverage for all months of the audit period and we strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 2 – Undocumented Expenditures

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

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
04/30/19	Transfer	Fire Company	\$ 918
08/31/19	Transfer	Fire Company	2,000
05/20/20	Transfer	Fire Company	3,123
01/13/21	Transfer	Fire Company	3,790
04/15/21	Transfer	Fire Company	700
Total			<u><u>\$ 10,531</u></u>

Criteria: Section 7418(a) of the VFRA Act states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters’ relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

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

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

CLOVER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of the VFRA Act. In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$10,531 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the affiliated fire company reimbursed the relief association \$10,531 for the undocumented expenditures on January 9, 2023.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$10,531 was received. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 3 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association did not maintain a complete and accurate roster of equipment owned by the relief association. During the current audit period, the relief association did provide an equipment roster; however, the roster included both fire company and relief owned equipment. Also, equipment roster was incomplete because it did not contain the names of suppliers (vendors), dates of purchase, cost of equipment and serial numbers to accurately identify equipment owned by the relief association. In addition, although relief association officials indicated that a physical inventory of equipment was conducted by the relief association on an annual basis, the relief association did not maintain sufficient documentation to support that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all equipment owned by the relief association.

CLOVER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 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: The relief association officials stated that they had personnel issues.

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 document 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.

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.

CLOVER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure To Maintain Minutes Of Meetings

Condition: The relief association did not maintain minutes of meetings as required by the VFRA Act and the relief association bylaws. Specifically, the relief association's minutes did not address all financial-related transactions that occurred during the audit period. In addition, the relief association did not provide meeting minutes for calendar year 2022 and meetings were only held in two months during calendar year 2019. Even though the bylaws require meetings to be called when there is sufficient business to warrant a meeting, the relief association failed to meet to discuss all required business. Also, the relief association and fire company meeting minutes were combined, and the minutes were not signed by the relief association secretary.

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 bylaws at MEETINGS states, in part:

All meetings shall be at the call of the president when there is sufficient business to warrant a general meeting.

In addition, the relief association's bylaws at Amendment #2 states, in part:

All expenditures must be approved by a majority vote at an association meeting and duly recorded in the minutes.

Cause: Relief association officials indicated that they were unaware that maintaining minutes of meetings was required by the VFRA Act.

Effect: Without holding regular meetings and maintaining separate detailed minutes of meetings of relief association business, evidence that relief association business was presented before the membership for approval does not exist. In addition, the practice of relief association and fire company minutes being combined increases the risk of financial errors occurring.

Recommendation: We recommend that the relief association officials hold all required meetings and maintain a permanent record of all relief association meetings as required by the VFRA Act and the relief association bylaws. The minutes should include an adequate record of all financial-related business conducted by the relief association and be signed by the secretary. In addition, the relief association meeting minutes should not be combined with the meeting minutes of the fire company. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

CLOVER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (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. 5 – Inadequate Financial Record-Keeping System

Condition: 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:

- Journals were maintained but include both the receipts and disbursements of the relief association and the affiliated fire company.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Documentation to support transfers of relief association funds to the affiliated fire company were not maintained to support the propriety of the transactions. Refer to Finding No. 2 of this report.
- Erroneous deposits were made of funds belonging to the affiliated fire company. Refer to the Background section of this report.
- Bank statements were not maintained.
- Cancelled checks were not maintained.
- Expenditure payments for relief association purchases were made by the relief association's affiliated fire company and the relief association reimbursed the fire company for the expenditures made.

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.

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

Cause: Relief association officials indicated that they were unaware of their various record-keeping responsibilities.

CLOVER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

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. 6 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the relief association do not clearly address all of the provisions required by Section 7415(c) of the VFRA Act. Specifically, the bylaws do not address the procedure to be followed in amending bylaws and the procedures for the investment of funds and sale of investments. Also, the relief association bylaws reference Act 84 and are not updated to reflect the current VFRA Act (Act 118 of 2010 and Act 91 of 2020).

Criteria: Section 7415(c) of the VFRA Act states that the relief association's bylaws shall:

- (6) Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.
- (7) Set out the procedure to be followed in amending bylaws.
- (8) Specify notice required with respect to proposed bylaw amendments, including the time, place and date when the proposed amendments shall be considered.
- (9) Be faithfully preserved, along with amendments thereto and the effective date of the amendments, in permanent form.

Furthermore, the relief association bylaws should authorize and clearly specify the criteria to be met before receiving death or relief benefits and the amount of any benefit payments. In addition, the bylaws should address the authorization of compensation to relief association officers.

Cause: Relief association officials indicated that they were unaware of the mandatory bylaw provisions established by the VFRA Act.

CLOVER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Effect: As a result of the mandatory provisions not being included in the relief association bylaws and the relief association bylaws being outdated by referencing Act 84, the relief association may have conducted its affairs without proper authorization in accordance with the VFRA Act.

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act and properly authorize the operating procedures of the relief association. 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.

CLOVER FIRE COMPANY FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Clover Fire Company Fireman's Relief Association Governing Body:

Mr. Donald G. Gretskey
President

Ms. Christine Skibiell
Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association:

Ms. Evelyn Bergan
Secretary
Cass 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.