

COMPLIANCE AUDIT

Fireman's Relief Association of East Norwegian Township Schuylkill County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

May 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Aaron Kalochie, President
Fireman's Relief Association of
East Norwegian Township
Schuylkill County

We have conducted a compliance audit of the Fireman's Relief Association of East Norwegian Township (relief association) for the period January 1, 2018 to December 31, 2020. 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, 2018 to December 31, 2020:

- The relief association took appropriate corrective action to address one of the three findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- Because of the significance of the matter described in Finding No. 3 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. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Membership Roster

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings

Finding No. 3 – Failure To Comply With Terms Of Loan Agreement

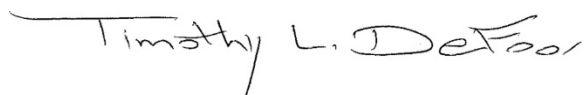
Finding No. 4 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 5 – Failure To Maintain Surety (Fidelity) Bond Coverage

Finding No. 6 – 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
April 25, 2022

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	4
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Membership Roster.....	5
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings	6
Finding No. 3 – Failure To Comply With Terms Of Loan Agreement	7
Finding No. 4 – Failure To Maintain A Complete And Accurate Equipment Roster.....	8
Finding No. 5 – Failure To Maintain Surety (Fidelity) Bond Coverage.....	9
Finding No. 6 – Failure To Define Discretionary Benefits And Inadequate Relief Association Bylaws.....	10
Potential Withhold of State Aid.....	12
Report Distribution List	13

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:

Municipality	County	2018	2019	2020
East Norwegian Township	Schuylkill	\$5,601	\$5,972	*

* During the current audit period, the relief association did not receive an allocation of state aid from East Norwegian Township 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 as of December 31, 2020 was \$22,649, as illustrated below:

Cash	\$ 22,649
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Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$31,974, 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	\$ 1,488
Fire Services:	
Equipment purchased	\$ 2,440
Administrative Services:	
Other administrative expenses	\$ 446
Total Investments Purchased	\$ 27,600
Total Expenditures	\$ 31,974

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 Schoentown

East Norwegian Township Fire Co.

FIREMEN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Untimely Deposit Of State Aid

By timely depositing all income received.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with two of the three prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure To Maintain A Complete And Accurate Membership Roster
- Inadequate Minutes Of Meetings

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

FIREMEN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No.1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Membership Roster

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

A similar condition was noted in our prior audit report.

Criteria: Relief association officials should maintain 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: The relief association officials did not provide a reason for why this occurred despite the relief association being notified of this condition during our prior audit.

Effect: The failure to maintain 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 again recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

FIREMEN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – 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 of the financial-related transactions that occurred during the audit period and the minutes were not signed. Also, the relief's bylaws require quarterly (four times per year) meetings; however, the relief only provided minutes for two meetings in 2018 and 2020, and no minutes were provided for 2019.

A similar condition was noted in our prior audit report.

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.

In addition, the relief association's bylaws at Article 2, Section 1 states, in part:

Meetings of the association shall be held four (4) times a year . . .

Further, prudent business practice dictates that the application of a handwritten signature assists in validating the authenticity of the authorized recording officer's signature and in the authenticity of the relief association's meeting minutes.

Cause: Relief association officials indicated that they did not have enough members for a quorum necessary to hold the relief association meetings. Relief association officials did not provide a specific reason for why the meeting minutes did not address all of the relief association's financial-related transactions or why the meeting minutes were not signed.

Effect: Without detailed minutes of meetings signed by the recording officer, evidence that relief association business was presented before the membership for approval does not exist. In addition, the lack of attendees to meet the quorum requirements further prevents the relief association from ensuring relief association business was presented to the membership in accordance with the relief association bylaws.

FIREMEN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Continued

Recommendation: We again recommend that the relief association officials maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association, that all meeting minutes are signed by the recording officer and that all meetings are conducted in accordance with the quorum requirements of the relief association bylaws. 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 3 – Failure To Comply With Terms Of Loan Agreement

Condition: On January 7, 2018, the relief association made a loan to the East Norwegian Township Fire Company in the amount of \$27,600; however, the relief association only received one payment on the loan on January 5, 2020 totaling \$5,000. The terms of the loan states that payments of \$2,668 will be due on annually starting on December 31, 2018 and a 10% late fee will be assessed if the payment is made after the December 31st due date. The relief association had only received one payment due through the audit period ending December 31, 2020, totaling \$5,000. In addition, we found that subsequent to the audit period the relief association had not received any payment in the year 2021. Therefore, as of December 31, 2021, the relief association is owed \$6,472 of principal, interest, and late fees.

Criteria: The terms of the loan agreement state that payments of \$2,668 will be due on an annual basis, beginning on December 31, 2018. The agreement states the amount of interest to be assessed each year is 3 percent.

Cause: The relief association officials stated that the fire company did not have enough funds to pay the loan back.

Effect: Due to the relief association not receiving the scheduled loan payments, funds were unavailable for general operating expenses or for investment purposes. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

FIREMEN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Continued

Recommendation: We recommend that the relief association officials collect \$6,472 representing principal, interest, and late fees through December 31, 2021. We further recommend that relief association officials ensure future payments are received in accordance with the loan agreement. If such action is not taken, we recommend that the loan be immediately liquidated. 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. 4 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association did not provide a roster of 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 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 did not provide a reason for why this occurred.

FIREMEN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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.

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 – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by the VFRA Act. The relief association's Surety (Fidelity) bond coverage expired on February 16, 2020. As of December 31, 2020, the relief association's cash assets totaled \$22,649.

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: Relief association officials indicated that they let the bond lapse because the fire company was not active.

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

FIREMEN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Recommendation: We recommend that the relief association officials obtain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by the VFRA Act. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and 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 – Failure To Define Discretionary Benefits And Inadequate Relief Association Bylaws

Condition: We provided the relief association with an Observation during the prior audit regarding the failure to formally define and approve discretionary benefits that were being offered to its members and the benefits were not formalized in the relief association bylaws. During the prior audit period, the relief association paid \$250 in discretionary benefits. During the current audit period, we determined that the relief association still did not formally define and approve such benefits. Although these expenditures were authorized by the VFRA Act, the types, amounts, and criteria to be met before receiving the benefits were not described in the relief association bylaws and/or a formal policy approved by the relief association membership, or at a minimum approved in the official relief association meeting minutes.

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.)

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.

FIREMEN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Cause: The relief association officials stated that the approval of the updated bylaws were in the meeting minutes that were lost in the prior audit.

Effect: As a result of the authorization of the discretionary benefits not being included in the bylaws, a formal policy or at a minimum in the relief association's meeting minutes, the relief association may have conducted its affairs without proper authorization. The relief association's failure to formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the relief association.

Recommendation: We recommend that the relief association officials formally define and document the criteria of the discretionary benefits being offered to its membership. The formal approval of benefits and related criteria should be documented in the bylaws, a policy statement, or in the official meeting minutes, and should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the criteria to be met before receiving the benefit. Furthermore, all approved discretionary benefits should be in accordance with provisions of 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.

FIREMEN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 3 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is 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 327 Finance Building, Harrisburg, PA 17120.

FIREMEN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Charles J. McGarvey, Sr.
State Fire Commissioner

Fireman's Relief Association of East Norwegian Township Governing Body:

Mr. Aaron Kalochie
President

Ms. Michele Kline
Secretary

Mr. Mark A. Placek
Treasurer

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

Ms. Suzanne McGeoy
Secretary
East Norwegian 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.