

COMPLIANCE AUDIT

Mt. Bethel Volunteer Firemen's Relief Association

Northampton County, Pennsylvania

For the Period

January 1, 2020, to December 31, 2022

August 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Frederick Farleigh, President
Mt. Bethel Volunteer Firemen's
Relief Association
Northampton County

We have conducted a compliance audit of the Mt. Bethel Volunteer Firemen's Relief 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 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 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 an independent confirmation of the cash balance directly from the financial institution. Therefore, while the relief association provided copies of bank statements that indicated that, as of December 31, 2022, the relief association had a cash balance of \$9,364, we were not able to verify this cash balance.

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

- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below, and discussed in the Status of Prior Finding section of this report.
- Except for the effects, if any, of the matter described in the preceding paragraph, 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 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Undocumented Expenditures

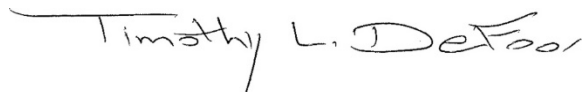
Finding No. 3 – Unauthorized Expenditures

Finding No. 4 – Inadequate Investment Records

Finding No. 5 – Inadequate Minutes Of Meetings And 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
June 20, 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.

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

<u>Municipality</u>	<u>County</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Upper Mount Bethel Township	Northampton	\$22,900	\$20,200	\$24,548

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)

Based on the relief association’s records, its total cash and investments as of December 31, 2022, were \$31,726, as illustrated below:

Cash	\$ 9,364
Fair Value of Investments	<u>22,362</u>
Total Cash and Investments	<u>\$ 31,726</u>

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$98,139, 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:

Fire Services:	
Equipment purchased	\$ 84,137
Equipment maintenance	7,702
Training expenses	<u>2,015</u>
Total Fire Services	<u>\$ 93,854</u>
Administrative Services:	
Bond premiums	\$ 750
Other administrative expenses	<u>461</u>
Total Administrative Services	<u>\$ 1,211</u>
Other Expenditures:	
Undocumented expenditures – Finding No. 2	\$ 2,002
Unauthorized expenditures – Finding No. 3	<u>1,072</u>
Total Other Expenditures	<u>\$ 3,074</u>
Total Expenditures	<u>\$ 98,139</u>

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:

Mt. Bethel Volunteer Fire Company

MT. BETHEL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain A Complete And Accurate Equipment Roster

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.

MT. BETHEL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: During the current audit period the relief association again failed to maintain a complete and accurate roster of equipment owned by the relief association. The listing of relief association owned equipment provided during the current audit period, was incomplete and did not accurately identify all of the equipment owned by the relief association. Therefore, we were unable to determine if all equipment purchased during the audit period, totaling \$84,137 was recorded. 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.

A similar condition was noted in our prior three audit reports.

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 why it again failed to maintain a complete and accurate equipment roster and evidence of the performance of an annual physical inventory of equipment.

Effect: The continued 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 cumulative equipment roster to perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

MT. BETHEL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again 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: We are seriously 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. 2 – Undocumented Expenditures

Condition: During the prior audit, the relief association was given a verbal observation for a \$100 undocumented expenditure because it was unable to provide adequate supporting documentation for the January 7, 2019, training expenditure. The relief association officials did not take corrective action to address the undocumented expenditure prior to the end of the current audit period ending December 31, 2022.

In addition, the relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

Date	Check No.	Payee Description	Amount
05/04/2020	1165	Equipment vendor	\$ 81
11/02/2020	1171	Equipment vendor	99
12/07/2020	1176	Equipment vendor	472
02/04/2021	1181	Equipment vendor	1,300
08/02/2022	1197	Training vendor	50
Total			<u>\$ 2,002</u>

MT. BETHEL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 stated that the missing invoices may have been misplaced in the invoice book.

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 \$2,102 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

MT. BETHEL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – 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>
12/06/2021	1191	Class parade uniform package and cap badge	\$ 409
10/03/2022	1199	Two job shirts, T-shirt, and polo shirt	332
10/03/2022	1210	Two job shirts and a T-shirt	331
Total			<u>\$ 1,072</u>

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

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.
- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service, including necessary training.

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.

Costs associated with parade uniforms, badges, and general clothing do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

Cause: The relief association officials indicated that the relief association was billed in error for these expenditures.

MT. BETHEL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 \$1,072 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 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 – Inadequate Investment Records

Condition: Relief association officials did not maintain adequate records of their annuity. Specifically, none of the annuity statements were maintained by the relief association for the audit period. The investment statements had to be obtained directly from the investment agent. Furthermore, although the relief association is the owner of the annuity, the person documented as the annuitant on the policy is no longer a member of the volunteer firefighters' relief association.

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.

MT. BETHEL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Additionally, sound accounting procedures for investment purchases and sales should include the recording of the following:

- Date of purchase or sale of the security
- Identification number of the security
- Rate of interest
- Date of receipt of interest income
- Date of maturity

Cause: Relief association officials failed to establish adequate accounting procedures to maintain the statements for their investment and to record the transactions of the investment. In addition, the relief association officials did not provide a response about the annuitant no longer being a relief association member.

Effect: The failure to maintain an adequate record-keeping system for investment transactions prevents officials from effectively monitoring the relief association's financial position.

Recommendation: We recommend that the relief association officials take the necessary steps to record all investments purchased and sold, and identify the source and amount of investment income, so that all investment transactions are sufficiently documented. In addition, we recommend that the relief association officials contact the investment company immediately to ensure that the named annuitant is revised since this individual is no longer a member 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.

MT. BETHEL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Inadequate Minutes Of Meetings And Relief Association Bylaws

Condition: The relief association failed to maintain detailed minutes of meetings as required by the VFRA Act and the relief association's bylaws. Specifically, meetings were not held for the period between December 8, 2020, and October 3, 2021 and all financial-related transactions during that period were not brought before, and approved by, the relief association's membership. In addition, the 2022 minutes were not signed and dated by the Relief Association's Secretary as a means of verifying their authenticity. 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 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 Article III, Section 3 states, in part:

The secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note authorization by the membership of all financial transactions and all other pertinent business discussed at meetings.

In addition, the relief association's bylaws at Article V, Section 1 states:

Funds of this association shall not be expended for any other purpose other than those authorized by the provisions of Act 84 of 1968 and the associations bylaws. All expenditures must be approved by a majority vote at an association meeting and duly recorded in the minutes.

Furthermore, 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.

Cause: Relief association officials indicated that this discrepancy occurred possibly from the COVID-19 shutdown when they did not have meetings. The relief association officials did not provide a reason why the Secretary of the Relief Association did not sign the meeting minutes, or why the bylaws were not updated to meet the requirements of the VFRA Act.

MT. BETHEL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Effect: Without holding regular meetings and 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 hold all required meetings and 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. In addition, 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.

MT. BETHEL VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mt. Bethel Volunteer Firemen's Relief Association Governing Body:

Mr. Frederick Farleigh
President

Mr. Christopher Finan, Jr.
Vice President

Mr. Robert Johnson
Secretary

Mr. Brendan McDonald
Treasurer

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

Ms. Cindy Beck
Secretary
Upper Mount Bethel 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.