

# COMPLIANCE AUDIT

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South Mountain Fireman's  
Relief Association Inc.  
of South Mountain Pennsylvania  
Franklin County  
For the Period  
January 1, 2020, to December 31, 2022

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March 2024



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. John Curfman, Jr., President  
South Mountain Fireman's Relief Association  
Inc. of South Mountain Pennsylvania  
Franklin County

We have conducted a compliance audit of the South Mountain Fireman's Relief Association Inc. of South Mountain Pennsylvania (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 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 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.

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

- The relief association took appropriate corrective action to address the findings 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 – Unsecured Loan And Failure To Comply With Terms Of The Loan Agreement

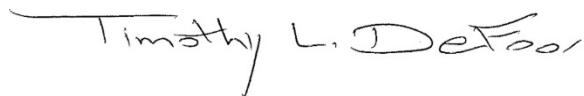
Finding No. 2 – Inappropriate Pre-signing Of Blank Checks

Finding No. 3 – Inadequate Minutes Of Meetings And Relief Association Bylaws

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

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  
February 21, 2024

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings .....	5
Findings and Recommendations:	
Finding No. 1 – Unsecured Loan And Failure To Comply With Terms Of The Loan Agreement.....	6
Finding No. 2 – Inappropriate Pre-signing Of Blank Checks .....	7
Finding No. 3 – Inadequate Minutes Of Meetings And Relief Association Bylaws .....	8
Finding No. 4 – Failure To Maintain A Complete And Accurate Equipment Roster.....	10
Report Distribution List .....	12

## BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code<sup>1</sup>, and the Volunteer Firefighters' Relief Association Act<sup>2</sup> ("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 Law<sup>3</sup> (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.

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<sup>1</sup> 72 P.S. § 403 (as last amended by Act 44 of 2017).

<sup>2</sup> 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

<sup>3</sup> 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

**BACKGROUND – (Continued)**

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

<u>Municipality</u>	<u>County</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Hamiltonban Township	Adams	\$ 1,672	\$ 1,468	\$ 1,779
Guilford Township	Franklin	\$18,299	\$16,103	\$19,850
Quincy Township	Franklin	\$ 4,379	\$ 3,879	\$ 4,652

Based on the relief association’s records, its total cash and investments as of December 31, 2022, was \$82,572, as illustrated below:

Cash	\$ 42,830
Book Value of Other Investments	<u>39,742</u>
Total Cash and Investments	<u><u>\$ 82,572</u></u>

## BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$148,400, 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.<sup>4</sup> **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	\$	4,157
Death benefits		1,000
Tokens of sympathy and goodwill		200
Total Benefit Services	\$	<u>5,357</u>

#### Fire Services:

Equipment purchased	\$	62,818
Equipment maintenance		18,373
Training expenses		6,210
Total Fire Services	\$	<u>87,401</u>

#### Administrative Services:

Bond premiums	\$	200
Other administrative expenses *		5,381
Total Administrative Services	\$	<u>5,581</u>

#### Other Expenditures:

Payments on loan	\$	50,000
Unauthorized sales tax paid **		61
Total Other Expenditures	\$	<u>50,061</u>

Total Expenditures	\$	<u>148,400</u>
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\* A majority of the other administrative expenses represent \$1,882 for website services, \$1,084 for wireless services, and \$1,825 for tax preparation fees during the 2020 to 2022 audit period.

\*\* During the audit period, the relief association made disbursements in the amount of \$61 for the unauthorized payment of sales tax on purchases that were authorized under the VFRA Act. We disclosed these issues to relief association officials on July 28, 2023, but we did not include a finding in this report due to the relatively low dollar amount.

<sup>4</sup> 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:

South Mountain Volunteer Fire Company



SOUTH MOUNTAIN FIREMAN'S RELIEF ASSOCIATION INC. OF SOUTH MOUNTAIN  
PENNSYLVANIA  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Unauthorized Expenditure

By receiving reimbursement of \$235 from the affiliated fire company for the unauthorized expenditure made in the prior audit period.

- Failure To Maintain A Complete And Accurate Membership Roster

By maintaining a comprehensive listing of the relief association's membership.

SOUTH MOUNTAIN FIREMAN’S RELIEF ASSOCIATION INC. OF SOUTH MOUNTAIN  
PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Unsecured Loan And Failure To Comply With Terms Of The Loan Agreement**

Condition: On December 10, 2021, the relief association made a 30-year unsecured loan to the affiliated fire company in the amount of \$50,000 for the purpose of, according to the loan agreement between the affiliated fire company and the relief association, “to help with regular expenses due to the negative impact that Covid 19 had on the department.” On August 17, 2022, the affiliated fire company made a principal only payment of \$10,000 and, according to relief association records, subsequent to our audit period in June 2023, a \$5,000 principal only payment was made, and the loan agreement was revised to a term of over 17 years. Due to the extended loan payback period, the relief association must ensure that asset(s) pledged to secure the loan meet the criteria below.

Furthermore, on March 28, 2022, the relief association received loan payments from the affiliated fire company for January 2022 through March 2022, and on January 26, 2023, the relief association received the equivalent of eleven payments for April 2022 through February 2023.

Criteria: Section 7416(c)(3) of the VFRA Act requires that loans be:

. . . (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

Furthermore, the terms of the loan agreement state that “payments of around \$200” will be due on a monthly basis.

Cause: Relief association officials indicated the failure to secure the loan was due to an oversight. The relief association officials did not provide a cause for their failure to comply with the terms of the loan agreement.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk. In addition, due to the relief association not receiving the scheduled loan payments, funds were unavailable for general operating expenses or for investment purposes.

SOUTH MOUNTAIN FIREMAN'S RELIEF ASSOCIATION INC. OF SOUTH MOUNTAIN  
PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that the relief association officials and the fire company amend the written loan agreement to provide adequate security for the relief association's investment as required by Section 7416(c)(3) of the VFRA Act. 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, as a result of our audit, the relief association received a loan payoff payment from the affiliated fire company on February 9, 2024, in the amount of \$38,711, equal to the loan payoff amount calculated by an accounting firm.

Auditor's Conclusion: We reviewed documentation verifying the loan payoff payment of \$38,711 was received. Compliance for maintaining appropriate loan documentation and compliance with terms of a loan agreement will be subject to verification through our next audit.

**Finding No. 2 – Inappropriate Pre-signing Of Blank Checks**

Condition: A review of the relief association's checkbook, at the time of the audit engagement, revealed that 11 blank checks were pre-signed by one of the two relief association officers who are authorized to sign checks. The pre-signing of blank checks negates the relief association's internal control over the disbursement process.

Criteria: Prudent business practice dictates that the relief association has sufficient internal control procedures in place to prohibit the pre-signing of blank checks. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to signing the checks.

Cause: Relief association officials stated that it was difficult to get someone to sign.

Effect: As a result of one of the two authorized relief association officers pre-signing the blank checks, assets were placed at greater risk of misappropriation since the officer who pre-signed the blank checks did not have the opportunity to verify the propriety of the expenditures.

SOUTH MOUNTAIN FIREMAN'S RELIEF ASSOCIATION INC. OF SOUTH MOUNTAIN  
PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Recommendation: We recommend that the practice of pre-signing blank checks be immediately discontinued. We also recommend that all of the relief association officers ensure that checks are signed and co-signed only after the propriety of the expenditures have been determined and the payees, dates, and amounts to be paid have been confirmed. 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. 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 did not consistently contain an attendance record, or a sign-in sheet of members present to verify those members who participated in the meeting ensured a quorum of membership was present and the relief association business was conducted before the membership for approval. Furthermore, while the meeting minutes were signed, they were not 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 bylaws at Article VI, Section 1 states:

It shall be the duty of the secretary to keep the correct minutes of the association; to read all papers when ordered to keep roll call of the members, to attend promptly to all correspondence of the association.

SOUTH MOUNTAIN FIREMAN'S RELIEF ASSOCIATION INC. OF SOUTH MOUNTAIN  
PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

In addition, the relief association's bylaws at Article VIII, Section 3 states:

All action of the board of directors shall become effective when approved by a majority of the board and recorded in the minutes of their meetings.

Furthermore, the relief association's bylaws at Article X, Section 2 states:

Eight paid up members of the relief association shall constitute a quorum.

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, why the Secretary of the Relief Association did not date the meeting minutes, or why the meeting minutes did not document attendance.

Effect: Without detailed minutes of meetings that are 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 and whether quorum requirements were met. 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 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.

SOUTH MOUNTAIN FIREMAN'S RELIEF ASSOCIATION INC. OF SOUTH MOUNTAIN  
PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – 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, it 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. As such, it was impossible to determine if all equipment purchased during the audit period in the amount of \$62,818 was recorded. In addition, although relief association officials indicated by documenting on the equipment roster that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association, the equipment roster was not complete.

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 this occurred.

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.

SOUTH MOUNTAIN FIREMAN'S RELIEF ASSOCIATION INC. OF SOUTH MOUNTAIN  
PENNSYLVANIA  
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.

SOUTH MOUNTAIN FIREMAN'S RELIEF ASSOCIATION INC. OF SOUTH MOUNTAIN  
PENNSYLVANIA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

South Mountain Fireman's Relief Association Inc. of South Mountain Pennsylvania Governing  
Body:

**Mr. John Curfman, Jr.**  
President

**Mr. Cody Bumbaugh**  
Secretary

**Mr. Ryan Dick**  
Treasurer

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

**Ms. Nina Garretson**  
Secretary  
Hamiltonban Township

**Ms. Shannon Malott**  
Secretary  
Guilford Township

**Ms. Julia Bowers**  
Secretary  
Quincy Township



SOUTH MOUNTAIN FIREMAN'S RELIEF ASSOCIATION INC. OF SOUTH MOUNTAIN  
PENNSYLVANIA  
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