

COMPLIANCE AUDIT

The West Chester Volunteer Firemen's Relief Association

Chester County, Pennsylvania

For the Period

January 1, 2020, to December 31, 2022

May 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Jonathan Eadie, President
The West Chester Volunteer Firemen's
Relief Association
Chester County

We have conducted a compliance audit of The West Chester 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 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.

We were not able to obtain independent confirmations of the cash balance and the investment balance directly from the financial institutions. Therefore, while the relief association provided bank and investment statements that indicated that, as of December 31, 2022, the relief association had a cash balance of \$2,801,140 and an investment balance with a fair value of \$311,957, we were not able to verify those cash and investment balances.

We were also not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by the VFRA Act.

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 findings 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 matters described in the two preceding paragraphs, 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 –
Unauthorized Expenditures

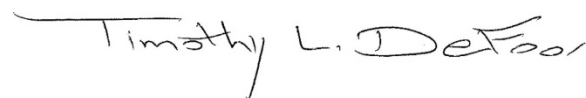
Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Insufficient Surety (Fidelity) Bond Coverage

We have also issued the observations below as detailed in the Observations section of this report.

Observation No. 1 – FDIC Coverage Limits Exceeded

Observation No. 2 – NCUA Coverage Limits Exceeded

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 26, 2024

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures	6
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage	7
Observations:	
Observation No. 1 – FDIC Coverage Limits Exceeded	9
Observation No. 2 – NCUA Coverage Limits Exceeded	10
Report Distribution List	11

BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code¹, and the Volunteer Firefighters' Relief Association Act² ("VFRA Act"), the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law³ (commonly referred to as Act 205) are properly expended.

The relief association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

The VFRA Act governs the overall operation of volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct business. To fulfill its primary purpose, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, it is the responsibility of relief associations to choose investments in a proper and prudent manner.

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

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

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

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

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

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Birmingham Township	Chester	\$ 17,025	\$15,088	\$ 18,410
East Bradford Township	Chester	\$ 37,445	\$33,422	\$ 41,816
Thornbury Township	Chester	\$ 26,245	\$23,720	\$ 29,744
West Chester Borough	Chester	\$110,306	\$99,202	\$122,826
West Goshen Township	Chester	\$ 74,682	\$66,227	\$ 83,067
Westtown Township	Chester	\$ 33,030	\$29,815	\$ 37,409

Based on the relief association's records, its total cash and investments as of December 31, 2022, were \$12,990,648, as illustrated below:

Cash	\$ 2,801,140
Fair Value of Investments	311,957
Book Value of Other Investments	<u>9,877,551</u>
Total Cash and Investments	<u><u>\$ 12,990,648</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 \$4,711,065, 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	\$ 243,459
Death benefits	50,000
Relief benefits	39,349
Tokens of sympathy and goodwill	250
Total Benefit Services	<u>\$ 333,058</u>

Fire Services:

Equipment purchased	\$ 203,832
Equipment maintenance	71,778
Training expenses	357,035
Total Fire Services	<u>\$ 632,645</u>

Administrative Services:

Bond premiums	\$ 1,721
Officer compensation	34,000
Other administrative expenses	12,584
Total Administrative Services	<u>\$ 48,305</u>

Total Investments Purchased	<u>\$ 3,692,857</u>
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Other Expenditures:

Unauthorized expenditures – See Finding No. 1	<u>\$ 4,200</u>
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Total Expenditures	<u><u>\$ 4,711,065</u></u>
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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:

Fame Fire Company No. 3

First West Chester Fire Company

Good Will Fire Company No. 2

THE WEST CHESTER VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Unauthorized Expenditures

Although the relief association received reimbursement of \$7,380 from the affiliated fire company for the unauthorized expenditures that were made in the prior audit period, the relief association again expended funds in the current audit period that were not authorized by the VFRA Act as further disclosed in Finding No. 1 of this report.

- Insufficient Surety (Fidelity) Bond Coverage

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.

THE WEST CHESTER VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – 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>
03/19/2020	870207	Non bona-fide training expense	\$ 600
09/25/2020	3910	Non bona-fide training expense	350
11/16/2020	975092	Non bona-fide training expense	1,600
12/03/2020	972101	Non bona-fide training expense	1,650
			<hr/>
Total			\$ 4,200

A similar condition was noted in our prior audit report.

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

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

- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.

Costs associated with non bona-fide trainings do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by the VFRA Act until being notified of this condition during our prior audit which occurred in March 2021. No unauthorized expenditures occurred after 2020.

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.

THE WEST CHESTER VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the relief association be reimbursed \$4,200 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. 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. 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. 2 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$2,000,000; however, as of December 31, 2022 the relief association's cash assets totaled \$2,801,140.

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.

THE WEST CHESTER VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials indicated that they had less training expenditures due to covid restrictions and an increase in mortgage payoffs which raised their cash balance past budgeted projections.

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.

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.

THE WEST CHESTER VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OBSERVATIONS

Observation No. 1 – FDIC Coverage Limits Exceeded

As disclosed in an observation in the five previous audits, the relief association again failed to ensure that all cash deposits were below the FDIC coverage limits per account ownership in one institution. As of December 31, 2022, the relief association's ending cash balance with the financial institution amounted to \$2,412,428.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United States government that protects the funds depositors place in banks and savings associations. FDIC insurance is backed by the full faith and credit of the United States government.

FDIC insurance covers all deposit accounts, including:

- Checking accounts
- Savings accounts
- Money market accounts
- Certificates of deposit

FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual funds, life insurance policies, annuities and securities. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.

Section 7413 of the VFRA Act states that the purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure as far as circumstances will reasonably permit, that the funds shall be available for the protection of the volunteer firefighters' and their heirs.

Furthermore, prudent business practice dictates that in addition to performing monthly bank reconciliations, the relief association should ensure the relief association's cash balance does not exceed FDIC limits set by banking regulations. Lack of effective monitoring of relief association cash and investment assets places the relief association funds at greater risk for loss.

The relief association should monitor all cash and investment assets that are eligible for FDIC insurance and ensure the balance of those assets per banking institution does not exceed FDIC coverage limits.

THE WEST CHESTER VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OBSERVATIONS

Observation No. 2 – NCUA Coverage Limits Exceeded

As disclosed in an observation in the five previous audits, the relief association again failed to ensure that all cash deposits were below the NCUA coverage limits per account ownership in one credit union. As of December 31, 2022, the relief association's ending cash and investment balances with the credit union amounted to \$690,669.

The National Credit Union Administration (NCUA) is an independent agency of the United States government that regulates, charters and supervises federal credit unions. NCUA insurance is backed by the full faith and credit of the United States government.

NCUA insurance covers all deposit accounts, including:

- Regular shares
- Share drafts (similar to checking)
- Money market accounts
- Share certificates

NCUA insurance does not cover losses on money invested in stocks, bonds, mutual funds, life insurance policies and annuities. The standard share insurance amount is \$250,000 per share owner, per insured credit union, for each account ownership category.

Act 118 at 35 Pa.C.S. § 7413 states that the purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure as far as circumstances will reasonably permit, that the funds shall be available for the protection of the volunteer firefighters' and their heirs.

Furthermore, prudent business practice dictates that in addition to performing monthly credit union reconciliations, the relief association should ensure the relief association's cash balance does not exceed NCUA limits set by credit union regulations. Lack of effective monitoring of relief association cash and investment assets places the relief association funds at greater risk for loss.

The relief association should monitor all cash and investment assets that are eligible for NCUA insurance and ensure the balance of those assets per the credit union does not exceed NCUA coverage limits.

THE WEST CHESTER 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

The West Chester Volunteer Firemen's Relief Association Governing Body:

Mr. Jonathan Eadie
President

Mr. Mark McCarthy
Vice President

Mr. William Gale
Secretary

Mr. John Litchert
Treasurer

Mr. Steve Crum
Assistant Treasurer

Mr. Robert Sheller
Director

Mr. Ted Hartz
Director

Mr. Michael McDonald
Director

Mr. James Higgins
Director

THE WEST CHESTER VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Ms. Quina Nelling
Secretary
Birmingham Township

Ms. Amanda M. Cantlin
Secretary
East Bradford Township

Ms. Judy Lizza
Secretary
Thornbury Township

Mr. Sean Metrick
Borough Manager
West Chester Borough

Mr. Christopher Bashore
Secretary
West Goshen Township

Mr. Jon Altshul
Secretary
Westtown Township

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