

COMPLIANCE AUDIT

Chinchilla Volunteer Firemens Relief Association of South Abington Township Lackawanna County, Pennsylvania For the Period January 1, 2020, to December 31, 2022

June 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Cody Hendricks, President
Chinchilla Volunteer Firemens
Relief Association of South
Abington Township
Lackawanna County

We have conducted a compliance audit of the Chinchilla Volunteer Firemens Relief Association of South Abington Township (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 objective of the audit was 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 objective 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.

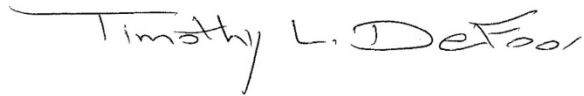
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief association funds complies with applicable state laws, contracts, bylaws, and administrative 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 objective. 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, 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 – Inadequate Relief Association Bylaws

Finding No. 2 – Failure To Maintain A Complete And Accurate Membership Roster

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
May 16, 2024

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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 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.

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>
South Abington Township	Lackawanna	\$58,641	\$52,473	\$65,947

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 \$359,179, as illustrated below:

Cash	\$ 57,405
Fair Value of Investments	<u>301,774</u>
Total Cash and Investments	<u>\$ 359,179</u>

Based on the relief association's records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$199,378, 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	\$ 72,818
Death benefits	7,500
Tokens of sympathy and goodwill	<u>2,000</u>
Total Benefit Services	<u>\$ 82,318</u>
Fire Services:	
Equipment purchased	\$ 35,584
Equipment maintenance	24,152
Training expenses	<u>3,449</u>
Total Fire Services	<u>\$ 63,185</u>
Administrative Services:	
Other administrative expenses	<u>\$ 564</u>
Total Investments Purchased	<u>\$ 30,000</u>
Other Expenditures:	
Payments on loan	<u>\$ 23,311</u>
Total Expenditures	<u>\$ 199,378</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:

Chinchilla Hose Company of South Abington Township

CHINCHILLA VOLUNTEER FIREMENS RELIEF ASSOCIATION OF
SOUTH ABINGTON TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the relief association do not clearly address all the provisions required by Section 7415(c) of the VFRA Act. During the current audit period, the relief association paid death benefits to designated beneficiaries of three relief association members totaling \$7,500. Although these expenditures were authorized by the VFRA Act, the amount to be paid by the relief association directly to beneficiaries was not described in a formal policy approved by the association membership. The current bylaws provide for death benefits of \$10,000 to be paid through the relief association's group life insurance policy; however, the relief association began paying \$2,500 of those death benefits directly to beneficiaries beginning in July 2021.

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.

Criteria: Section 7415(c) of the VFRA Act states that the relief association's bylaws should include the following provisions:

- (10) Contain such other provisions as may, to the membership, seem appropriate or necessary to the orderly conduct of affairs of the association.

The relief association's bylaws at Article V, Section 1 states, in part:

Funds of the association shall not be expended for any purpose other than those authorized by the provisions of Act 84 and the association's bylaws.

In addition, the relief association's bylaws at Article V, Section 5 states, in part:

At no time shall the dollar amount exceed rates set under Act 84.

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.

CHINCHILLA VOLUNTEER FIREMENS RELIEF ASSOCIATION OF
SOUTH ABINGTON TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

The relief association's bylaws at Article IX states, in part:

The Relief Association will provide the members of the Chinchilla Hose Company of South Abington Township a death benefit in the amount of \$10,000 through a group life insurance policy.

Furthermore, prudent business practice dictates that when a relief association offers death benefits, 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 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.

Cause: The relief association officials indicated the benefit allowance was adequate and the total death benefit was not exceeded but \$2,500 of the \$10,000 death benefit for those 65 or older became the responsibility of the relief association. The relief association officials did not provide a reason why the bylaws were not updated to meet the requirements of the VFRA Act.

Effect: 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 association. In addition, as a result of the relief association not updating the bylaws to meet the appropriate requirements, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials ensure discretionary benefits are formally defined in the bylaws and specify the death benefit amount to be paid directly by the relief association. 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. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management did not agree with the finding as presented at the audit exit conference and stated that what was in their bylaws sufficed as proper allowance.

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

CHINCHILLA VOLUNTEER FIREMENS RELIEF ASSOCIATION OF
SOUTH ABINGTON TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Maintain A Complete And Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members. Specifically, the relief association paid a death benefit and is currently offering a life insurance policy to individuals not listed on the relief association's membership roster.

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 why this occurred.

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 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 and indicated they will take action to comply with the recommendation.

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

CHINCHILLA VOLUNTEER FIREMENS RELIEF ASSOCIATION OF
SOUTH ABINGTON TOWNSHIP
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Chinchilla Volunteer Firemens Relief Association of South Abington Township Governing
Body:

Mr. Cody Hendricks
President

Mr. Jeffrey Reese
Vice President

Mr. Ryan Hiller
Secretary

Mr. John Kolcharno
Treasurer

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

Ms. JoAnn T. Pane
Secretary
South Abington 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.