

COMPLIANCE AUDIT

West Mahanoy Township Relief Association

Schuylkill 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. Scott Sharp, President
West Mahanoy Township Relief Association
Schuylkill County

We have conducted a compliance audit of the West Mahanoy Township 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 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 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.
- 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 the Prior Audit Recommendation –
Inadequate Minutes Of Meetings

Finding No. 2 – Unauthorized Expenditure

Finding No. 3 – Failure To Conduct Annual Physical Equipment Inventories

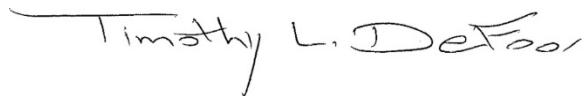
Finding No. 4 – Failure To Maintain A Complete And Accurate Membership
Roster

Finding No. 5 – Inadequate Signatory Authority For The Disbursement Of
Funds

Finding No. 6 – Failure To Adhere To Relief Association Bylaws 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
June 7, 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> |
|-----------------------|---------------|-------------|-------------|-------------|
| West Mahanoy Township | Schuylkill | \$12,558 | \$11,081 | \$13,301 |

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 \$97,319, as illustrated below:

| | |
|----------------------------|------------------|
| Cash | \$ 22,366 |
| Fair Value of Investments | <u>74,953</u> |
| Total Cash and Investments | <u>\$ 97,319</u> |

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$46,411, 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 | <u>\$ 12,195</u> |
| Fire Services: | |
| Equipment purchased | \$ 25,762 |
| Equipment maintenance | 1,060 |
| Training expenses | <u>780</u> |
| Total Fire Services | <u>\$ 27,602</u> |
| Administrative Services: | |
| Bond premiums | \$ 331 |
| Officer compensation | 2,400 |
| Other administrative expenses | <u>11</u> |
| Total Administrative Services | <u>\$ 2,742</u> |
| Other Expenditures: | |
| Unauthorized expenditure – See Finding No. 2 | <u>\$ 3,872</u> |
| Total Expenditures | <u>\$ 46,411</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 organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Altamont Fire Company

Shenandoah Heights Fire Company

William Penn Fire Company

WEST MAHANAY TOWNSHIP 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:

- Inadequate Minutes Of Meetings

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.

WEST MAHANAY TOWNSHIP RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – 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. Specifically, the relief association’s minutes did not address all financial-related transactions that occurred during the audit period.

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.

Cause: The relief association officials indicated that the prior recording secretary was not writing all the correct meeting minutes down.

Effect: Without maintaining detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We again 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. The minutes should include an adequate record of all financial-related business conducted by the relief association.

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 – Unauthorized Expenditure

Condition: The relief association expended \$3,872 for maintenance on a fire company owned truck during the current audit period that is not authorized by the VFRA Act.

WEST MAHANAY TOWNSHIP RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

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

- (1) To pay for vehicles and maintenance to vehicles used for emergency response.

Cause: The relief association officials indicated that they were unaware that the expenditure for the maintenance of a fire company owned vehicle was not authorized by the VFRA Act.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by the VFRA Act.

Recommendation: We recommend that the relief association be reimbursed \$3,872 for the unauthorized expenditure 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. 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 affiliated fire company reimbursed the relief association \$3,872 for the unauthorized expenditure on November 16, 2023.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$3,872 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 3 – Failure To Conduct Annual Physical Equipment Inventories

Condition: As cited as a verbal observation in the prior audit, the relief association officials failed to provide evidence that it conducted annual physical inventories of equipment and ensure such inventory accounted for all equipment owned by the relief association.

Criteria: Sound business practice dictates that annual inventories are conducted to ensure the accuracy of the relief association's equipment roster.

Cause: The relief association officials stated that there were new fire chiefs in the fire companies since the prior audit and the new fire chiefs were unaware that the physical equipment inventories needed to be completed.

WEST MAHANOEY TOWNSHIP RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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

Recommendation: We again recommend that the relief association officials ensure they perform an annual physical inventory of all operable equipment and that the completion of the inventories 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. 4 – 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. Of the two rosters provided, they only provided the names and dates of birth.

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: Relief association officials indicated that the fire companies failed to provide the treasurer with the proper membership rosters.

WEST MAHANAY TOWNSHIP RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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 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 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified two checks out of six randomly selected checks drawn from the relief association’s checking account that did not contain the proper signatory authority. The two checks only contained the signature of one officer (the Relief Association Treasurer), even though two signatures are required by the VFRA Act and the relief association’s bylaws. Issuing checks with the signature of only one relief association officer negates the relief association’s internal control over the disbursement process.

Criteria: Section 7415(c)(3) of the VFRA Act states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

In addition, the relief association’s bylaws at Article 7, Section 1 states, in part:

The signature of at least two officers, one of whom shall be the Treasurer, shall be required for the issuance of relief association checks.

WEST MAHANOEY TOWNSHIP RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. 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 approving the checks.

Cause: The relief association officials stated that it is hard to get two officers to sign the checks.

Effect: As a result of the relief association officers issuing checks with only one signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two relief association officers, one of whom shall be the Treasurer, are included on all relief association negotiable instruments as defined by the VFRA Act and the relief association's 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: Compliance will be subject to verification through our next audit.

WEST MAHANOY TOWNSHIP RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – Failure To Adhere To Relief Association Bylaws And Inadequate Relief Association Bylaws

Condition: The relief association did not adhere to provisions in the association’s bylaws. Specifically, the relief association did not abide by the bylaw stipulations as noted below:

- The relief association treasurer also holds the financial secretary position.
- The relief association paid officer salaries without approving the amount at any meetings during the current audit period.

In addition, 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: The relief association’s bylaws stipulate the following:

Article 3, Section 1 – The officers of this association shall consist of a president, vice president, financial secretary, treasurer, and recording secretary.

Article 3, Section 3 – Officers of the West Mahanoy Township Relief Association shall be paid annually at December’s meeting. The rate of payment shall be set annually at the meeting.

The relief association’s bylaws at Article 5, Section 1 states, in part:

Funds of this association shall not be expended for any purpose other than those authorized by the provisions of Act 84 and the associations by-laws.

In addition, the relief association’s bylaws at Article 6, 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.

Furthermore, prudent business practice dictates that the relief association should adhere to all provisions stipulated in the relief association’s bylaws to ensure that the relief association conducts its affairs with proper authorization.

WEST MAHANOHY TOWNSHIP RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Cause: Relief association officials indicated that they were unaware of the bylaw guidelines established by the relief association. In addition, the relief association officials were unaware that the bylaws needed to be updated to meet the requirements of the VFRA Act.

Effect: As a result of the relief association not following the mandatory provisions stipulated in the bylaws and 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 review the bylaws governing their organization and establish guidelines and procedures to meet the provisions contained in the bylaws in order to assure that the association conducts its affairs with proper authorization. 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 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.

WEST MAHANoy TOWNSHIP RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

West Mahanoy Township Relief Association Governing Body:

Mr. Scott Sharp
President

Ms. Rachal Callavini
Recording Secretary

Mr. Richard P. Stevens, Jr.
Treasurer/Financial Secretary

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

Mr. Michael B. Michalik
Secretary
West Mahanoy 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.