

COMPLIANCE AUDIT

Fireman's Relief Association of East Norwegian Township Schuylkill County, Pennsylvania For the Period January 1, 2021, to December 31, 2023

January 2025



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Aaron Kalochie, President
Fireman's Relief Association
of East Norwegian Township
Schuylkill County

We have conducted a compliance audit of the Fireman's Relief Association of East Norwegian Township (relief association) for the period January 1, 2021, to December 31, 2023. 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, 2021, to December 31, 2023:

- The relief association took appropriate corrective action to address two of the six findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the four remaining findings contained in our prior audit report, as listed below, and discussed in the Status of Prior Findings section of this report.
- Because of the significance of the matter described in Finding No. 1, below and discussed later in this report, the relief association did not, in all significant respects, comply 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. This matter resulted in a total withholding of state aid during our prior audit.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Mitigate Losses From Default Of A Loan

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

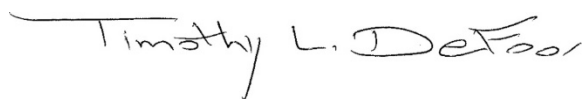
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Membership Roster

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings

Finding No. 5 – Failure To File For Dissolution

We are concerned by the relief association's failure to correct four previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report. Additionally, we are also concerned about the relief association's failure to file for dissolution as noted in Finding No. 5.

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
December 11, 2024

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania,¹ Section 403 of The Fiscal Code,² and the Volunteer Firefighters' Relief Association Act ("VFRA Act"),³ 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, commonly referred to as Act 205,⁴ 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 Pa. Const. Art. VIII § 10.

² 72 P.S. § 403.

³ 35 Pa.C.S. § 7411 *et seq.*

⁴ 53 P.S. § 895.701 *et seq.*

BACKGROUND – (Continued)

During the current audit period, the relief association did not receive an allocation of state aid from any funding municipalities. Municipalities have the sole discretion to distribute their annual allocation of state aid received to any relief association providing fire service to the municipality.

The relief association has not received allocations of state aid from a funding municipality since 2019 because the relief association’s affiliated fire company closed and has not provided fire service to the municipality. Beginning in 2020, the municipality provided state aid funding to another relief association which provides fire service to the municipality.

Based on the relief association’s records, its total cash and investments as of December 31, 2023, were \$50,575, as illustrated below:

Cash	\$ 25,508
Book Value of Other Investments	<u>25,067</u>
Total Cash and Investments	<u><u>\$ 50,575</u></u>

Based on the relief association’s records, its total expenditures for the period January 1, 2021, to December 31, 2023, were \$310, 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.⁵ **The scope of the Department’s audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Administrative Services:	
Bond premiums	\$ 240
Other administrative expenses	<u>70</u>
Total Expenditures	<u><u>\$ 310</u></u>

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:

East Norwegian Township Fire Co.

⁵ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

FIREMAN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure To Maintain Surety (Fidelity) Bond Coverage

By maintaining Surety (Fidelity) bond coverage in an amount greater than the balance of the relief association's cash assets.

- Failure To Define Discretionary Benefits And Inadequate Relief Association Bylaws

The relief association amended and approved its bylaws to reflect the discretionary benefit amount to be paid during a prior audit period. Although the relief association provided the amended bylaws, the relief association indicated it was still not able to provide the meeting minutes that approved the amended bylaws from a prior audit period because the minutes to the meeting were lost. Additionally, during the current audit period the relief association indicated it discontinued the practice of paying discretionary benefits.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure To Comply With Terms Of Loan Agreement

See Finding No. 1 of this report.

- Failure To Maintain A Complete And Accurate Equipment Roster

- Failure To Maintain A Complete And Accurate Membership Roster

- Inadequate Minutes Of Meetings

We are concerned by the relief association's failure to correct the previously reported audit findings. The relief association management should strive to implement the recommendations and corrective actions noted in this audit report.

FIREMAN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Mitigate Losses From Default Of A Loan

Condition: On January 4, 2018, the relief association entered into a loan agreement with the East Norwegian Township Fire Company (Fire Company) to loan the Fire Company \$27,600. The loan agreement designated three Fire Company owned vehicles as collateral for which the relief association holds liens. The agreement was for a term of 15 years at an interest rate of 3 percent. Annual principal and interest payments from the Fire Company of \$2,668 were due December 31, 2018, and each year thereafter. Prior year's principal and interest payments from the Fire Company were \$5,000. During the current audit period, the Fire Company only made one more payment of principal and interest of \$2,935. As of December 31, 2023, the Fire Company owed \$25,067 for the outstanding balance of the loan, interest and late fees. Although the relief association put liens on the collateral and subsequently took possession of the collateral when the Fire Company ceased operations, the relief association failed to mitigate its losses by selling the collateral.

A similar condition was noted in our prior audit report which resulted in the relief association's state aid allocations to be withheld.

Criteria: Prudent business practice dictates that the relief association exercise its responsibility to ensure the recoupment of funds it is due. The loan agreement designated three Fire Company owned vehicles as collateral for which the relief association holds liens. The loan agreement allows for the vehicles to be forfeited to the relief association and sold to recoup any remaining balance if the fire company is unable to repay the entire loan.

Cause: The relief association officials stated that the Fire Company did not have enough funds to pay the loan back. The Fire Company vehicles held as collateral are in the custody of the relief association treasurer and have not been advertised for sale.

Effect: Due to the relief association not receiving the scheduled loan payments and not mitigating the losses by selling the collateral, funds were unavailable for use and/or transfer to another relief association for general operating expenses.

Recommendation: We recommend that the relief association officials sell the vehicles held for collateral and/or donate the vehicles to another relief association if the relief association is unable to sell the vehicles. The relief association is required to complete a proper dissolution pursuant to the Act and to ensure that all relief association obligations are satisfied properly and assets accounted for, sold, or transferred to another relief association (see Finding No. 5). For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

FIREMAN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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: 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 relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – 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. 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. Although the relief association made no purchases of equipment during the current audit period, it had purchases totaling \$4,278 during the prior audit periods for years 2016 through 2020. Additionally, the relief association has the three vehicles provided by the now defunct fire company that defaulted on a loan, see Finding No. 1.

A similar condition was noted in our prior audit report.

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 and obtained by the relief association. The roster is used to perform and to document an annual physical inventory of all operable equipment 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 the following:

- Types of equipment purchased
- Dates of purchase (or dates of possession for collateralized assets)
- 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

FIREMAN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: The relief association officials did not provide a reason why an equipment roster was not maintained, despite the relief association being notified of this condition during our prior audit.

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 detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

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. In addition, if the relief association is dissolved, (see Finding No. 5), the remaining equipment should be transferred to another 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. 3 – Noncompliance With Prior Audit Recommendation – 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.

A similar condition was noted in our prior audit report.

FIREMAN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 a membership roster was not maintained, despite the relief association being notified of this condition during our prior audit.

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 again 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: 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.

FIREMAN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – 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 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, no meetings were held 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.

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

Meetings of the association shall be held four (4) times a year.

Cause: Relief association officials stated that due to lack of members and quorum they were unable to have the required meetings.

Effect: Without holding regular meetings and maintaining detailed minutes of meetings that address all financial-related transactions and that are signed and dated, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We again recommend that the relief association officials hold all required meetings and maintain detailed minutes of meetings as required by the VFRA Act that are signed and dated evidencing the discussion and approval of all financial-related business conducted by the relief association and whether quorum requirements were met. 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.

FIREMAN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure To File For Dissolution

Condition: The relief association failed to apply to the local common pleas court for dissolution as mandated by the VFRA Act. Pursuant to all available information and records reviewed during the current audit, the relief association is no longer affiliated with a fire company certified by the township for purposes of providing fire service to the township. Furthermore, according to the relief association treasurer, the relief association's membership diminished to less than five members.

The VFRA Act prescribes specific requirements for what constitutes a Volunteer Firefighters' Relief Association and when such an organization can receive an allocation of state aid funds under that Act. As of December 31, 2023, the relief association retained a cash balance of \$25,508 and a loan investment with a balance due to the relief association of \$25,067. Per relief association records provided to our auditors, there is no evidence that the relief association has qualifying members to which an established benefit obligation may be owed in the future.

Criteria: Section 7419 of the VFRA Act (**relating to Dissolution**) requires the following, in part:

- (b) Continuation.--Notwithstanding withdrawal of a company under subsection (a), the volunteer firefighters' relief association shall continue granting financial assistance to its remaining members and their families in death, sickness and distress suffered through the unfortunate elements of life.
- (c) New members prohibited.--A volunteer firefighters' relief association continuing under subsection (b) shall not receive any new members.
- (d) Application.--When the membership of a relief association functioning under subsection (b) diminishes to five members, the association shall apply to the local common pleas court for dissolution. (Emphasis added.)
- (e) Determination.--Upon receipt of an application under subsection (d), the court shall direct that:
 - (1) all bills, including the costs of dissolution, be paid.⁶

⁶ 35 Pa.C.S. § 7419.

FIREMAN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

In addition, the current proposed relief association bylaws at Article IX states, in part:

In the event of any other dissolution of the relief association, the members will take the necessary steps to (1) provide all existing benefits prescribed in the association bylaws, (2) pay all debts and expenses of the association and (3) convey the association's remaining assets and property to the remaining relief association(s) affiliated with the volunteer fire company(ies) providing fire service to the municipality(ies). In all circumstances, the distribution will be done in accordance with the applicable federal and state laws and regulations governing non-profit charitable institutions.

Prudent business practice dictates the following:

- If a volunteer fire company decides to dissolve because of financial or personnel constraints, the affiliated VFRA may also dissolve. In this case, the remaining VFRA members should hold a meeting to approve the dissolution of the association and the disposition of its assets.
- In most circumstances, all association-owned equipment and monetary assets are to be transferred to the relief association affiliated with the neighboring volunteer fire company that will provide fire service in its place.
- The relief association officers have a fiduciary responsibility to ensure the proper dissolution of the relief association in a timely manner.
- If a volunteer fire company decides to dissolve because of financial or personnel constraints, the affiliated VFRA may also dissolve. In this case, the remaining VFRA members should hold a meeting to approve the dissolution of the association and the disposition of assets.

Cause: Relief association officials indicated that, while the relief association is inactive and no longer affiliated with a volunteer fire company, it can't dissolve until the loan to the fire company is settled. The fire company's vehicles held as collateral are in the custody of the relief association treasurer but have not been advertised for sale (see Finding No. 1).

Effect: Failure to file for dissolution in a timely manner may result in the relief association being unable to properly satisfy outstanding obligations and to properly distribute remaining monetary assets and equipment.

FIREMAN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Recommendation: We recommend that the remaining relief association members hold a meeting to document the approval of the membership to file for dissolution, properly dispose of or transfer the remaining assets, and pay any outstanding obligations. If necessary, the relief association should seek assistance by consulting with legal counsel and/or the Office of the State Fire Commissioner. 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.

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

FIREMAN'S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by Finding No. 1 contained in this audit report has already resulted in a total withholding of state aid during our prior audit. The withholding of state aid to the relief association will remain in place until the relief association completes the dissolution process. Compliance with the finding recommendation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 316E Finance Building, Harrisburg, PA 17120.

FIREMAN’S RELIEF ASSOCIATION OF EAST NORWEGIAN TOWNSHIP
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Fireman’s Relief Association of East Norwegian Township Governing Body:

Mr. Aaron Kalochie
President

Ms. Michele Kline
Secretary

Mr. Mark A. Placek
Treasurer

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

Ms. Suzanne McGeoy
Secretary
East Norwegian 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.