

COMPLIANCE AUDIT

Macungie Firemen's Relief
Association, of the Borough of
Macungie, State of Pennsylvania
Lehigh County
For the Period
January 1, 2014 to December 31, 2016

April 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Russ George, President
Macungie Firemen's Relief Association,
of the Borough of Macungie, State of Pennsylvania
Lehigh County

We have conducted a compliance audit of the Macungie Firemen's Relief Association, of the Borough of Macungie, State of Pennsylvania (relief association) pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2014 to December 31, 2016.

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.

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 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, 2014 to December 31, 2016:

- The relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the remaining finding 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 matters described in the findings 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, collectively as a whole. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Finding No. 2 – Undocumented Expenditures

Finding No. 3 – Failure To Maintain Minutes Of Meetings

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

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

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

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.

April 20, 2017



EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, 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, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (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.

Act 118 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, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, 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 association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the 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.

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Lower Macungie Township	Lehigh	\$11,255	\$ 9,412	\$ 6,409
Macungie Borough	Lehigh	\$20,519	\$19,367	\$19,379

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:

Macungie Volunteer Fire Department

MACUNGIE FIREMEN’S RELIEF ASSOCIATION, OF THE BOROUGH OF MACUNGIE,
STATE OF PENNSYLVANIA
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Inappropriate Ownership Of Rescue Vehicles

By ensuring the titles of the previously disclosed rescue vehicles were appropriately transferred to the relief association.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Unauthorized Expenditures

We are concerned by the relief association’s failure to correct this previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

MACUNGIE FIREMEN’S RELIEF ASSOCIATION, OF THE BOROUGH OF MACUNGIE,
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures

Condition: As disclosed in the prior audit report, the relief association expended \$1,691 during 2013 for the fire department’s umbrella insurance policy premium which is not authorized by Act 118. A similar condition occurred during the current audit period. The relief association expended an additional \$37,578 towards the fire company’s comprehensive insurance coverage as follows:

Date	Check No.	Description	Amount
02/11/14	1296	Fire Department Commercial Insurance Policy Premium	1,687
04/29/14	1303	Fire Department Commercial Insurance Policy Premium	4,849
07/24/14	1314	Fire Department Commercial Insurance Policy Premium	3,215
09/18/14	1320	Fire Department Commercial Insurance Policy Premium	1,075
09/25/14	1321	Fire Department Commercial Insurance Policy Premium	1,075
11/10/14	1336	Fire Department Commercial Insurance Policy Premium	1,075
12/11/14	1342	Fire Department Commercial Insurance Policy Premium	531
01/09/15	1354	Fire Department Commercial Insurance Policy Premium	799
02/12/15	1359	Fire Department Commercial Insurance Policy Premium	799
04/10/15	1371	Fire Department Commercial Insurance Policy Premium	1,598
07/16/15	Tele-pay	Fire Department Commercial Insurance Policy Premium	2,258
08/05/15	1392	Fire Department Commercial Insurance Policy Premium	1,071
09/11/15	Tele-pay	Fire Department Commercial Insurance Policy Premium	1,071
10/09/15	1404	Fire Department Commercial Insurance Policy Premium	1,071
11/07/15	1416	Fire Department Commercial Insurance Policy Premium	1,071
12/08/15	1417	Fire Department Commercial Insurance Policy Premium	1,071
01/03/16	1420	Fire Department Commercial Insurance Policy Premium	1,071
02/06/16	1429	Fire Department Commercial Insurance Policy Premium	1,071
03/08/16	1440	Fire Department Commercial Insurance Policy Premium	1,071
04/15/16	Tele-pay	Fire Department Commercial Insurance Policy Premium	1,071
07/17/16	1458	Fire Department Commercial Insurance Policy Premium	2,473
08/17/16	1462	Fire Department Commercial Insurance Policy Premium	1,173
09/27/16	Tele-pay	Fire Department Commercial Insurance Policy Premium	1,173
10/16/16	1470	Fire Department Commercial Insurance Policy Premium	1,169
12/09/16	1484	Fire Department Commercial Insurance Policy Premium	1,527
12/15/16	1489	Fire Department Commercial Insurance Policy Premium	1,463
Total			<u>\$ 37,578</u>

In addition, subsequent to the current audit period on January 26, 2017, an additional \$1,073 was paid by the relief association towards the fire department’s comprehensive insurance coverage.

MACUNGIE FIREMEN'S RELIEF ASSOCIATION, OF THE BOROUGH OF MACUNGIE,
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1) states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

Costs associated with the payment of a fire department's comprehensive insurance policy do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Even though the relief association was notified of this condition during our prior audit, there was a turnover in relief association officers responsible for administering the affairs of the relief association and these newly appointed officers were unaware that the aforementioned expenditures were not authorized by Act 118.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association be reimbursed \$40,342 for the unauthorized expenditures and that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) 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 indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Due to the potential withhold of state aid, 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.

MACUNGIE FIREMEN’S RELIEF ASSOCIATION, OF THE BOROUGH OF MACUNGIE,
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
01/11/2014	1285	Training	\$ 25
01/25/2014	1286	Insurance company	1,691
		Total	<u>\$ 1,716</u>

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters’ relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Without adequate supporting documentation, such as an invoice, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

MACUNGIE FIREMEN'S RELIEF ASSOCIATION, OF THE BOROUGH OF MACUNGIE,
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the expenditures or that the relief association be reimbursed \$1,716 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all 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 indicated they will take action to comply with the recommendation.

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

Finding No. 3 – Failure To Maintain Minutes Of Meetings

Condition: The relief association did not maintain minutes of meetings held from July 2014 through December 2016 as required by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) 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: Relief association officials indicated that they were unaware that maintaining minutes of meetings was required by Act 118.

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

Recommendation: We recommend that the relief association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record of all financial-related business conducted by the relief association. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

MACUNGIE FIREMEN'S RELIEF ASSOCIATION, OF THE BOROUGH OF MACUNGIE,
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

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

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

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Specifically, the relief association purchased \$77,888 of equipment during the current audit period and there was no equipment roster created or maintained for these purchases. 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.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

Cause: Relief association officials failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

MACUNGIE FIREMEN'S RELIEF ASSOCIATION, OF THE BOROUGH OF MACUNGIE,
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

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 11 checks out of 197 checks drawn on the relief association's checking account that only contained the signature of one officer, even though two signatures are required by Act 118 and the relief association bylaws. Issuing checks with the signature of only one officer negates the relief association's internal control over the disbursement process.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) 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.

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: Relief association officials neglected to establish adequate internal control procedures that require the signatures of at least two officers on all negotiable instruments.

MACUNGIE FIREMEN'S RELIEF ASSOCIATION, OF THE BOROUGH OF MACUNGIE,
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Effect: As a result of the relief association officer 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 officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118. 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.

MACUNGIE FIREMEN'S RELIEF ASSOCIATION, OF THE BOROUGH OF MACUNGIE,
STATE OF PENNSYLVANIA
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

MACUNGIE FIREMEN'S RELIEF ASSOCIATION, OF THE BOROUGH OF MACUNGIE,
STATE OF PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2016

Cash	\$ 42,809
Fair Value of Investments	<u>16,656</u>
Total Cash and Investments	<u>\$ 59,465</u>

MACUNGIE FIREMEN’S RELIEF ASSOCIATION, OF THE BOROUGH OF MACUNGIE,
STATE OF PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:		
Insurance premiums	\$	13,012
Fire Services:		
Equipment purchased	\$	77,888
Equipment maintenance		60,198
Training expenses		5,799
Fire prevention materials		1,570
Total Fire Services	\$	145,455
Administrative Services:		
Other administrative expenses	\$	4,308
Bond premiums		1,000
Total Administrative Services	\$	5,308
Investments Purchased	\$	21,005
Other Expenditures:		
Undocumented expenditures	\$	37,578
Unauthorized expenditures		1,716
Total Other Expenditures	\$	39,294
Total Expenditures	\$	224,074

MACUNGIE FIREMEN’S RELIEF ASSOCIATION, OF THE BOROUGH OF MACUNGIE,
STATE OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Macungie Firemen’s Relief Association, of the Borough of Macungie, State of Pennsylvania
Governing Body:

Mr. Russ George
President

Mr. Darwin L. Hoppes
Vice President

Ms. Kelly Magill
Secretary

Ms. Barbara Peters
Treasurer

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

Ms. Renea Flexer
Secretary
Lower Macungie Township

Ms. Chris L. Boehm
Secretary
Macungie Borough

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.