

COMPLIANCE AUDIT

Upper Nazareth Fire Department Volunteer Firefighters' Relief Association Northampton County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

July 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Craig Kolakowski, President
Upper Nazareth Fire Department Volunteer
Firefighters' Relief Association
Northampton County

We have conducted a compliance audit of the Upper Nazareth Fire Department Volunteer Firefighters' Relief Association (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 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.

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 objective. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided bank statements, the relief association did not provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2014 to December 31, 2016, 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 – Failure To Maintain Minutes Of Meetings

Finding No. 2 – Unauthorized Expenditures

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 has/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.

July 3, 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Upper Nazareth Township	Northampton	\$45,875	\$44,376	\$44,805

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:

Upper Nazareth Fire Department

UPPER NAZARETH FIRE DEPARTMENT VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Maintain Minutes Of Meetings

Condition: The relief association did not maintain minutes of meetings for several timeframes during the audit period 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: While relief association officials were aware that maintaining minutes of meetings was required by Act 118, officials failed to establish internal control procedures to ensure that the minutes of all meetings were preserved.

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.

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.

UPPER NAZARETH FIRE DEPARTMENT VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

Date	Check No.	Description	Amount
04/21/2014	193	Vanity license plates	\$ 89
07/20/2015	265	Officer's bond premium for the fire department	245
Total			<u>\$ 334</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1) and (11) 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.
- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

The cost associated with the purchase of the vanity license plates does not qualify as an authorized expenditure for safeguarding equipment. Furthermore, the expenditure for the fire department's bond coverage premium does not offer financial protection for the relief association's financial assets; consequently, both of these disbursements are not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the purchase of the license plates was not authorized by Act 118. Additionally, the payment for the fire department's bond coverage premium was an oversight on the part of relief association officers.

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.

UPPER NAZARETH FIRE DEPARTMENT VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association be reimbursed \$334 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: Compliance will be subject to verification through our next audit.

UPPER NAZARETH FIRE DEPARTMENT VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2016

Cash	<u>\$ 132,936</u>
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UPPER NAZARETH FIRE DEPARTMENT VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 11,591
Relief benefits	5,970
Total Benefit Services	<u>\$ 17,561</u>
Fire Services:	
Equipment purchased	\$ 123,191
Equipment maintenance	12,199
Training expenses	6,122
Fire prevention materials	2,403
Total Fire Services	<u>\$ 143,915</u>
Administrative Services:	
Officer compensation	\$ 2,275
Other administrative expenses	1,408
Bond premiums	342
Total Administrative Services	<u>\$ 4,025</u>
Other Expenditures:	
Unauthorized expenditures	<u>\$ 334</u>
Total Expenditures	<u><u>\$ 165,835</u></u>

UPPER NAZARETH FIRE DEPARTMENT VOLUNTEER FIREFIGHTERS' RELIEF
ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Upper Nazareth Fire Department Volunteer Firefighters' Relief Association Governing Body:

Mr. Craig Kolakowski
President

Ms. Nicole Seiple
Secretary

Ms. Barbara Beyer
Treasurer

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

Ms. Betty Parrish
Secretary
Upper Nazareth 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.