

COMPLIANCE AUDIT

The Washington Township Firemen's Relief Association Lehigh County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

June 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Jeremy Merkel, President
The Washington Township Firemen's
Relief Association
Lehigh County

We have conducted a compliance audit of The Washington Township Firemen's 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 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 fully comply with the recommendations previously disclosed in another finding contained in our prior audit report included in the finding listed below and discussed in the Status of Prior Findings 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 finding listed below and discussed later in this report.

Finding – Failure To Conduct Annual Physical Equipment Inventories

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 response has 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.

June 28, 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>
Washington Township	Lehigh	\$45,253	\$42,657	\$42,343

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:

Citizens Hose Company

Friedens Fire Company

Star Hose Company

THE WASHINGTON TOWNSHIP FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Failure to Maintain A Complete And Accurate Membership Roster

By maintaining a comprehensive listing of the relief association's membership.

PARTIAL COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association partially complied with the prior audit finding and recommendation, as follows:

- Failure to Maintain A Complete And Accurate Equipment Roster

Relief association officials provided a roster of relief association owned equipment for the current period; however, the relief association did not also ensure that the performance of an annual physical inventory of all operable relief association equipment was adequately conducted and results sufficiently documented as was also previously recommended. Therefore, this finding will not be repeated in its entirety during the current audit period; however, the outstanding issue involving the performance and documentation of annual physical inventories conducted of operable relief association-owned equipment will be addressed in the finding of this report.

THE WASHINGTON TOWNSHIP FIREMEN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Failure To Conduct Annual Physical Equipment Inventories

Condition: As disclosed in the Status of Prior Findings section of this report, although relief association officials provided a roster of relief association equipment for the current period, the relief association again failed to ensure that an annual physical inventory of all operable relief association-owned equipment was adequately performed and appropriately accounting for all equipment owned by the relief association and that the results were sufficiently documented.

Criteria: Sound business practice dictates that annual inventories are conducted to ensure the accuracy of the relief association's equipment roster and that such rosters include evidence of the performance and results of such annual physical inventory.

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures to ensure the adequate performance and appropriate documentation of annual physical equipment inventories.

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

Recommendation: We again recommend that relief association officials ensure the performance of 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 subsequent to 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.

THE WASHINGTON TOWNSHIP FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2016

Cash	\$ 80,925
Fair Value of Investments	<u>44,094</u>
Total Cash and Investments	<u>\$ 125,019</u>

THE WASHINGTON TOWNSHIP FIREMEN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:

Insurance premiums	\$ 19,880
Death benefits	400
Total Benefit Services	<u>\$ 20,280</u>

Fire Services:

Equipment purchased	\$ 81,872
Equipment maintenance	24,425
Training expenses	5,973
Total Fire Services	<u>\$ 112,270</u>

Administrative Services:

Other administrative expenses	\$ 1,229
Bond premiums	700
Total Administrative Services	<u>\$ 1,929</u>

Total Expenditures	<u><u>\$ 134,479</u></u>
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THE WASHINGTON TOWNSHIP FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Washington Township Firemen's Relief Association Governing Body:

Mr. Jeremy Merkel
President

Mr. Keith Kibler
Vice President

Mr. Gary Schneck
Treasurer

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

Ms. Erin Stenger-Guth
Secretary
Washington 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.