

COMPLIANCE AUDIT

East Stroudsburg Volunteer Firemen's Relief Association

Monroe County, Pennsylvania

For the Period

January 1, 2017 to December 31, 2020

June 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Daniel Strunk, President
East Stroudsburg Volunteer Firemen's
Relief Association
Monroe County

We have conducted a compliance audit of the East Stroudsburg Volunteer 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, 2017 to December 31, 2020.

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 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.

We were not able to obtain independent confirmations of portions of the cash balance directly from the financial institutions. Therefore, while the relief association provided copies of bank statements that indicated that, as of December 31, 2020, the relief association had a cash balance of \$714,456, we were not able to verify portions of this cash balance.

Based on our audit procedures, we conclude that, for the period January 1, 2017 to December 31, 2020:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- Because of the significance of the matters described in Finding Nos. 1, 3 and 7 below and discussed later in this report and the effects, if any, of the matter described in the preceding paragraph, 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 – Undocumented Expenditures

Finding No. 2 – Failure To Define Discretionary Benefits

Finding No. 3 – Undocumented Loan

Finding No. 4 – Inadequate Administration Of Mortgages

Finding No. 5 – Inadequate Meeting Minutes

Finding No. 6 – Inadequate Financial Record-Keeping System

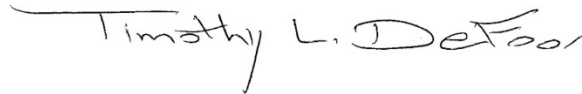
Finding No. 7 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

The seven findings contained in this report cite conditions that existed in the operation of the relief association during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

We have also issued the observation below as detailed in the Observation section of this report.

Observation – FDIC Coverage Limits Exceeded

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

April 28, 2021

Timothy L. DeFoor
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>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
East Stroudsburg Borough	Monroe	\$45,989	\$41,955	\$45,433	\$45,534

Based on the relief association's records, its total cash and investments as of December 31, 2020 were \$2,730,198, as illustrated below:

Cash	\$ 714,456
Fair Value of Investments	533,303
Book Value of Investments	<u>1,482,439</u>
Total Cash and Investments	<u><u>\$ 2,730,198</u></u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2017 to December 31, 2020 were \$1,706,159, 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.¹ **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	\$ 18,987
Death benefits	204,212
Relief benefits	2,052
Total Benefit Services	<u>\$ 225,251</u>

Fire Services:

Equipment purchased	\$ 602,679
Equipment maintenance	17,316
Training expenses	12,473
Fire prevention materials	5,784
Total Fire Services	<u>\$ 638,252</u>

Administrative Services:

Officer compensation	\$ 34,666
Other administrative expenses	20,182
Bond premiums	2,777
Total Administrative Services	<u>\$ 57,625</u>

Total Investments Purchased	<u>\$ 577,280</u>
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Other Expenditures:

Undocumented Expenditures	<u>\$ 207,751</u>
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Total Expenditures	<u><u>\$ 1,706,159</u></u>
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¹ 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 organization are separate, legal entities. The relief association is affiliated with the following fire service organization:

Acme Hose Company No. 1

EAST STROUDSBURG VOLUNTEER 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:

- Insufficient Surety (Fidelity) Bond Coverage

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

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

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

Date	Check No.	Payee Description	Amount
02/20/2017	1200	Training	\$ 1,200
03/06/2017	1202	Member reimbursement	225
03/20/2017	1208	Administrative	42
01/15/2018	1283	Gym membership	279
02/19/2018	1291	Gym membership	309
02/19/2018	1292	Gym membership	279
02/19/2018	1293	Gym membership	309
02/19/2018	1295	Gym membership	309
02/19/2018	1296	Gym membership	309
02/19/2018	1297	Gym membership	309
04/16/2018	1303	Member reimbursement	32
01/21/2019	1375	Gym membership	279
01/21/2019	1376	Gym membership	309
01/21/2019	1377	Gym membership	309
02/18/2019	1389	Gym membership	309
03/18/2019	1397	Member reimbursement	85
11/18/2019	1468	Member reimbursement	600
02/06/2020	1479	Administrative	28
02/17/2020	1483	Gym membership	279
09/20/2020	1514	Affiliated fire company	111
09/20/2020	1515	Affiliated fire company	1,840
Total			<u>\$ 7,751</u>

Criteria: Section 7418(a) of Act 118 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.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: The relief association officials did not provide a reason for why this occurred.

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of Act 118. 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. 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 officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$7,751 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: 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.

Finding No. 2 – Failure To Define Discretionary Benefits

Condition: The relief association did not formally define and approve discretionary benefits that were being offered to an individual member. During the current audit period, beginning in April 2020, the relief association allowed a relief association official to use the relief association's debit card until the individual's disability payments arrived. In this time, the relief did not cap the amount used or properly include this benefit in its bylaws. Over the course of the current audit period, the relief association official withdrew \$1,693 using the debit card. The official repaid that amount plus interest in February 2021. Although these expenditures were authorized by Act 118, the types, amounts, and criteria to be met before receiving the benefits were not described in a formal policy approved by the relief association membership.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Section 7413 of Act 118 states that funds shall be available:

- (3) For payment, either by insurance or by operation of a beneficial fund, of a sum certain to designated beneficiaries of a participating member following the death of a member for any cause and to establish criteria which members must meet in order to qualify as participants in a death benefit fund. (Emphasis added.)
- (5) Financial assistance to volunteer firefighters who, after having actively participated in the fire service for a specified minimum term, are no longer physically able to continue participation and are in need of financial assistance. (Emphasis added.)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, disability benefits, officer compensation, or any other type of discretionary benefit provided by Act 118, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal relief association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well as the criteria to be met in order to receive the benefits.

Cause: The relief association officials stated that they did not know that the benefits needed to be approved and authorized within its bylaws.

Effect: The relief association's failure to formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the relief association.

Recommendation: We recommend that the relief association officials formally define and document the criteria for the discretionary benefits being offered to its membership. The formal approval of benefits and related criteria should be documented in the bylaws, a policy statement, or in the official meeting minutes, and should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the criteria to be met before receiving the benefit. Furthermore, all approved discretionary benefits should be in accordance with provisions of Act 118. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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. 3 – Undocumented Loan

Condition: On October 10, 2018, the relief association granted a zero interest loan to its affiliated fire company, Acme Hose Company No. 1, in the amount of \$200,000 without a formal written loan agreement. The loan was to be repaid in full when the affiliated fire company received a FEMA loan it expected to obtain within three months following the receipt of the \$200,000 loan. However, the loan was not repaid in full by the affiliated fire company until July 31, 2020. Furthermore, the relief association received no interest payments for the loan and did not secure its loan investment with proper collateralization. Based on the minimum allowable interest rate of 3% and the period of time the loan was outstanding, the relief association should have received a minimum of \$11,822 in interest.

Criteria: Section 7416(c)(3) of Act 118 states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any obligation of an incorporated fire company, provided that the obligation is:
(i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

In addition, prudent business practice requires such terms of the obligation be placed into a written loan agreement.

Further, under Act 118, a minimum of three percent interest is required on the repayment of loans provided by the relief association.

Cause: The relief association officials stated that there was no official documentation for the loan because it was expected to be repaid within three months once the affiliated fire company received FEMA loan monies. Relief officials did not provide a reason for why the minimum required three percent interest rate was not applied or collected or why its loan investment was not secured.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: Failure to adequately document the loan through a formal written agreement, including required collateralization and the application of the minimum required interest rate, places the investment at greater risk. In addition, the relief association was unable to use the loaned funds during this extended period to purchase replacement equipment, for general operating expenses, or for other investment purposes, and relief officials did not collect interest funds that could have been used for operational purposes. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that for any future loans the relief association officials and fire company prepare a formal written loan agreement, signed by both parties, specifying the payment schedule and the interest rate. The loan agreement must also specifically identify the collateral to protect the investment as required by Section 7416(c)(3) of Act 118. In addition, we recommend that the fire company pay the relief association \$11,822 for the minimum amount of interest that should have been charged 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 indicated that the affiliated fire company reimbursed the relief association \$200,000 for the undocumented loan on July 31, 2020.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$200,000 was received for the loan; however, we continue to recommend that the fire company pay the relief association \$11,822 for the minimum amount of interest that should have been charged by the relief association. 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.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Administration Of Mortgages

Condition: The relief association invests funds through mortgages granted to relief association members. During the current audit period, we detected the following errors and internal control weaknesses related to the administration of these mortgages:

- The relief association did not collect \$1,996 in late payment fees.
- There was no separate journals created to track all payments made by members. The only documentation that was retained was deposit slips for some payments.
- Amortization schedules were not updated based on actual payments made.
- The relief did not obtain evidence to demonstrate that property tax payments were current for the mortgages.

Criteria: Section 7416(c)(1) of Act 118 states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any form of investment named in 20 Pa.C.S. Ch. 73 (relating to municipalities investments). First mortgages insuring repayment of loans by relief associations shall provide for a minimum interest payment of 3% and not exceed 80% of the appraised value of real property covered by the mortgage.

Prudent business practice dictates that payments received should be deposited timely and applied accurately to each mortgagee's accounts. Amortization schedules should be routinely revised to reflect payments that vary from the original payment schedule. In addition, all delinquent mortgage payments and late fees should be pursued.

Cause: The relief association's officials stated they did not know of the agreed mortgage provisions that called for the delinquent payments, and that even if they did, they would not have known exactly how to apply the provisions.

Effect: The lack of sufficient internal controls to properly account for mortgage payments and outstanding balances places these investments at greater risk. By not revising payment schedules to reflect irregular payments, the relief association may not be earning the stated interest rates on the mortgages, and may be incorrectly stating the total outstanding mortgage balance. Not pursuing delinquent payments increases the likelihood that they will become uncollectible. Further, as a result of these errors and deficiencies, in seven instances, a mortgagee's balance has been delinquent since 2017, and the relief had not adjusted the outstanding mortgage balance nor pursued collection of the outstanding payments. Also, since the relief association officials could not provide documentation that property taxes were paid, the relief association's interest in the property was at risk.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend that the relief association officials adopt the following internal controls related to the administration of mortgages:

- Utilize a separate cash receipts journal to accurately record all mortgage payments received.
- Require mortgagees to submit proof that property taxes are paid or escrow property tax payments.
- Pursue all delinquent mortgage payments.
- Ensure that all outstanding mortgage balances are adjusted to reflect current balances due.
- Ensure amortization schedules reflect payments that vary from original schedules.

In addition, the relief association officers should consider consulting with a bank or other financial institution to assist with the proper accounting for mortgages issued by the relief association. The relief association should also consider instituting mortgage insurance to adequately insure outstanding mortgage balances. 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 Minutes Of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings as required by Act 118. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period. The relief association minutes did not provide details when financial accounts were closed and new accounts opened. In addition, mortgage payments were not recorded in the minutes.

Criteria: Section 7415(a) of Act 118 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.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

In addition, the relief association's bylaws at Article VI, Section 3 states, in part:

It shall be the duty of the Secretary to keep a true and correct account of all moneys coming into his/her hands.... It shall be the duty of the Treasurer to keep a true and correct account of all moneys belonging to the association.

Cause: Based on discussions with the relief association secretary, the relief association treasurer failed to provide all financial-related transactions during the membership meetings and did not provide a written report of those transactions to the membership. The relief association secretary stated that he did not actually view bank statements and take monthly totals, rather, he received the totals verbally from the treasurer. In addition, the secretary indicated he was told that an account at a financial institution was closed although it was still open for over two years.

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

Recommendation: We recommend that the relief association officials maintain detailed minutes of meetings evidencing the discussion and approval 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.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – Inadequate Financial Record-Keeping System

Condition: The relief association's financial record-keeping system did not establish adequate accounting procedures to allow the membership to effectively monitor the relief association's financial operations. The following are the noted deficiencies:

- The relief association closed a bank account on April 16, 2018 with a balance of \$307,588 and opened a new account the same day by depositing a total of \$462,467. This new account included the \$307,588 and funds from an existing Certificate of Deposit (CD) valued at \$154,879. This new account was not presented to the auditor by the relief association treasurer during the audit and the auditor had to obtain account information from the bank. Refer to Finding No. 5 of this report for further information.
- A separate cash receipts journal was not maintained to record mortgage payments received. Ledgers were not utilized to record the transactions of the relief association accounts. Refer to Finding No. 4 of this report for further information.
- Documentation to support various expenditures was not available for examination at the time of the audit. Refer to Finding Nos. 1, 2, 3 and 7 of this report for further information.

Criteria: Section 7415(a) of Act 118 states:

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it 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.

In addition, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials indicated that they were unaware of their various record-keeping responsibilities. In addition, the treasurer lost track of a bank account due to the fact that he thought the account was a CD; however, the CD along with another bank account had been converted into a new and separate bank account.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Recommendation: We recommend that the relief association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations. 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. 7 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Condition: On October 10, 2018, the relief association expended \$432,355 for the purpose of jointly purchasing a vehicle with the affiliated fire company. However, the relief association did not adequately secure its ownership interest in this jointly purchased vehicle through a joint purchase agreement with the affiliated fire company.

Criteria: Section 7418(a) of Act 118 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.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold.

Cause: The relief association officials did not know that they needed to execute this type of an agreement.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 7 – (Continued)

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicle places the relief association's ownership interest at greater risk. 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 officials execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$432,355. 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.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
OBSERVATION

Observation – FDIC Coverage Limits Exceeded

As disclosed in a verbal observation in the two previous audits, the relief association again failed to ensure that all cash deposits were below the FDIC coverage limits per account ownership in one institution. As of December 31, 2020, the relief association's ending cash balance with one financial institution amounted to \$550,955.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United State government that protects the funds depositors place in banks and savings associations. FDIC insurance is backed by the full faith and credit of the United States government.

FDIC insurance covers all deposit accounts, including:

- Checking accounts
- Savings accounts
- Money market accounts
- Certificates of deposit

FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual funds, life insurance policies, annuities and securities. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.

Section 7413 of Act 118 states that the purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure as far as circumstances will reasonable permit, that the funds shall be available for the protection of the volunteer firefighters' and their heirs.

Furthermore, prudent business practice dictates that in addition to performing monthly bank reconciliations, the relief association should ensure the relief association's cash balance does not exceed FDIC limits set by banking regulations. Lack of effective monitoring of relief association cash and investment assets places the relief association funds at greater risk for loss.

The relief association should monitor all cash and investment assets that are eligible for FDIC insurance and ensure the balance of those assets per banking institution does not exceed FDIC coverage limits.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 1, 3 and 7 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action may 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.

EAST STROUDSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

East Stroudsburg Volunteer Firemen's Relief Association Governing Body:

Mr. Daniel Strunk
President

Mr. Dale Fetterly
Secretary

Mr. Steve Miller
Treasurer

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

Mr. Brian S. Bond
Secretary
East Stroudsburg 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.