

COMPLIANCE AUDIT

Falls Township Fire Company No. 1 Fireman's Relief Association Bucks County, Pennsylvania For the Period January 1, 2018 to December 31, 2019

November 2020



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Michael McClellan, Jr., President
Falls Township Fire Company No. 1 Fireman's
Relief Association
Bucks County

We have conducted a compliance audit of the Falls Township Fire Company No. 1 Fireman'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, 2018 to December 31, 2019.

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.

Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2019:

- The relief association took appropriate corrective action to address the findings contained in our prior audit 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 findings listed below and discussed later in this report.

Finding No. 1 – Failure To Maintain Surety (Fidelity) Bond Coverage

Finding No. 2 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 3 – Payment of Pennsylvania Sales Tax

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.

October 19, 2020



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.

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

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>
Falls Township	Bucks	\$67,759	\$72,614

BACKGROUND – (Continued)

Based on the relief association's records, its total cash and investments as of December 31, 2019 were \$153,400, as illustrated below:

Cash	\$ 53,207
Fair Value of Investments	<u>100,193</u>
Total Cash and Investments	<u>\$ 153,400</u>

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2019 were \$473,149, 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	\$ 28,324
Tokens of sympathy and goodwill	<u>4,150</u>
Total Benefit Services	<u>\$ 32,474</u>

Fire Services:

Equipment purchased	\$ 186,748
Equipment maintenance	25,817
Training expenses	1,113
Fire prevention materials	<u>1,784</u>
Total Fire Services	<u>\$ 215,462</u>

Administrative Services:

Other administrative expenses	\$ 365
Bond premiums	<u>250</u>
Total Administrative Services	<u>\$ 615</u>

Total Investments Purchased	<u>\$ 224,256</u>
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Other Expenditures:

Payment of sales tax – See Finding No. 3	<u>\$ 342</u>
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Total Expenditures	<u>\$ 473,149</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:

Falls Township Fire Company No. 1

FALLS TOWNSHIP FIRE COMPANY NO. 1 FIREMAN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Duplicate Payments

By receiving reimbursement of \$411 from the affiliated fire company for the duplicate payments.

- Relief Association Brokerage Account Inappropriately Registered Under An Unknown Federal Tax Identification Number

By ensuring that all investments are registered under the relief association's federal tax identification number.

FALLS TOWNSHIP FIRE COMPANY NO. 1 FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. While the relief association had bond coverage for the period under review for the relief association's prior treasurer/dispersing officer during that period, the relief association did not update its bond name coverage schedule policy with the name of the new and current relief association treasurer/dispersing officer, which resulted in the current relief association treasurer/dispersing officer not being adequately bonded as of January 1, 2020.

Criteria: Section 7415(c)(4) of Act 118 states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: Relief association officials failed to update their name coverage schedule bond to reflect the name of the current authorized disbursing officer.

Effect: As a result of the authorized disbursing officer of the relief association not being bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials update their Surety (Fidelity) bond policy to reflect the current relief association's authorized disbursing officer. 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 have taken action to comply with the recommendation.

Auditor's Conclusion: We reviewed documentation verifying that current disbursing officer was added to the name coverage schedule bond policy on August 7, 2020. Compliance for maintaining bond coverage during the next audit period will be subject to verification through our next audit.

FALLS TOWNSHIP FIRE COMPANY NO. 1 FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – 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. Although a listing of relief association owned equipment was provided during the current audit period, this listing was incomplete and did not accurately identify all of the equipment purchased during the prior and current audit periods. In addition, the listing provided did not include the cost of equipment for all items. Furthermore, 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 did not provide a reason for why this occurred.

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.

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.

FALLS TOWNSHIP FIRE COMPANY NO. 1 FIREMAN'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 – Payment Of Pennsylvania Sales Tax

Condition: The relief association reimbursed a member for \$342 of Pennsylvania sales tax that was paid to a vendor for equipment purchased for the relief association. This reimbursement payment would not have been required if the member of the relief association had provided the relief association's sales tax exemption number to the vendor.

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

A volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

Cause: Relief association officials indicated that they were unaware of the necessity to provide their state sales tax exemption number to all vendors from which the relief association purchases equipment.

Effect: As a result of the relief association's failure to provide its sales tax exemption number to all vendors, the relief association was required to pay Pennsylvania sales tax on its purchase, which reduced the funds otherwise available for general operating expenditures and for investment purposes.

Recommendation: We recommend that the relief association officials seek a refund of the sales tax paid, in the amount of \$342, by filing an appeal form (REV-65BA) with the Pennsylvania Department of Revenue's Board of Appeals. In addition, we recommend that, in the future, relief association officials furnish its state sales tax exemption number to all vendors from which the relief association purchases equipment. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

FALLS TOWNSHIP FIRE COMPANY NO. 1 FIREMAN'S RELIEF ASSOCIATION
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, as a result of our audit, the affiliated fire company reimbursed the relief association \$342 for the reimbursement of the sales tax expenditure on October 20, 2020.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$342 was received. Compliance for unauthorized expenditures made during the next audit period will be subject to verification through our next audit.

FALLS TOWNSHIP FIRE COMPANY NO. 1 FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Falls Township Fire Company No. 1 Fireman's Relief Association Governing Body:

Mr. Michael McClellan, Jr.
President

Mr. Richard Behrmann
Vice President

Mr. Clark Martin
Secretary

Mr. Thomas J. Augustin
Treasurer

Mr. Chuck Eavers
Financial Secretary

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

Ms. Rose Molle
Secretary
Falls 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.