

COMPLIANCE AUDIT

Falls Township Fire Company No. 1 Fireman's Relief Association Bucks County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

December 2018



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, 2016 to December 31, 2017.

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 and was not required to be and was not 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 objective. 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, 2016 to December 31, 2017, 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 – Duplicate Payments

Finding No. 2 – Relief Association Brokerage Account Inappropriately Registered Under An Unknown Federal Tax Identification Number

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.

December 10, 2018


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>2016</u>	<u>2017</u>
Falls Township	Bucks	\$83,591	\$74,461

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
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Duplicate Payments

Condition: On May 16, 2017, the relief association expended \$1,523 for equipment from two different vendors. On July 17, 2017, the relief association erroneously made duplicate payments for the same equipment. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payments.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices and to ensure duplicate payments are recouped.

Cause: The relief association failed to establish adequate internal control procedures that require all invoices or other billing documents to be canceled or otherwise effectively marked to prevent duplicate payments.

Effect: As a result of the erroneous payments, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$1,523 for the erroneous duplicate payments. The relief association officials should consider contacting the vendors to recover the duplicate payments. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association 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, as a result of our audit, relief association officials received a \$918 credit memo from one vendor, on August 3, 2017, and a \$194 credit memo from the other vendor, on August 31, 2018. In addition, a \$411 check was sent to the affiliated fire company on September 7, 2018 for the remaining duplicate payment balance.

Auditor's Conclusion: We reviewed the documentation verifying that the two credit memos from the vendors totaling \$1,112 were received; however, we were unable to verify if the \$411 check made out to the affiliated fire company was deposited into a relief association account. Full compliance 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 – Relief Association Brokerage Account Inappropriately Registered Under An Unknown Federal Tax Identification Number

Condition: As of December 31, 2017, the relief association held a brokerage account with a total cost value of \$9,987, which was inappropriately registered under an unknown federal tax identification number rather than the relief association's identification number. These brokerage investments represent 8.03 percent of the relief association's total assets.

Criteria: Prudent business practice dictates that the relief association maintain ownership of all investments as a means of safeguarding its assets from unauthorized use or disposition.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that the investments purchased were registered with the relief association's federal tax identification number.

Effect: As a result of the investments being inappropriately registered under another entity's federal tax identification number, these relief association assets were not properly safeguarded.

Recommendation: We recommend that the relief association officials secure ownership rights to all monetary assets. This requirement can be accomplished by ensuring that all investments are registered under the relief association's federal tax identification number. 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.

FALLS TOWNSHIP FIRE COMPANY NO. 1 FIREMAN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 114,795
Fair Value of Investments	<u>9,504</u>
Total Cash and Investments	<u>\$ 124,299</u>

FALLS TOWNSHIP FIRE COMPANY NO. 1 FIREMAN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 28,264
Tokens of sympathy and goodwill	2,268
Total Benefit Services	\$ 30,532
Fire Services:	
Equipment purchased	\$ 53,443
Equipment maintenance	28,711
Training expenses	865
Fire prevention materials	1,648
Total Fire Services	\$ 84,667
Administrative Services:	
Officer compensation	\$ 300
Other administrative expenses	64
Total Administrative Services	\$ 364
Other Expenditures:	
Payments on loan	\$ 169,676
Total Expenditures	\$ 285,239

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. Thomas Augustin
Vice President

Mr. Clark Martin
Secretary

Mr. Daniel Burk
Treasurer

Mr. Charles Eavers
Financial Secretary

Mr. Richard Guy, Sr.
Trustee

Mr. Nick Doto
Trustee

Mr. Ryan Farmer
Trustee

Mr. Ryan Krieger
Trustee

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

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

Mr. Peter Gray
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.