

COMPLIANCE AUDIT

Freemansburg Volunteer Firemen's Relief Association, Inc. Northampton County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

January 2022



Commonwealth of Pennsylvania
Department of the Auditor General
Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Ryan Micolochick, President
Freemansburg Volunteer Firemen's
Relief Association, Inc.
Northampton County

We have conducted a compliance audit of the Freemansburg Volunteer Firemen's Relief Association, Inc. (relief association) for the period January 1, 2018 to December 31, 2020. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act, 35 Pa.C.S. § 7411 *et seq.* ("VFRA Act"), as most recently amended by Act 91 of 2020.

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 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 an independent confirmation of the cash balance and the investment balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2020, the relief association had a cash balance of \$63,315 and an investment balance with a fair value of \$28,831, we were not able to verify those cash and investment balances.

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, 2018 to December 31, 2020:

- The relief association took appropriate corrective action to address two of the five findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the three remaining findings contained in our prior audit report, as 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 findings listed below and discussed later in this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Comply With Terms Of Mortgage Agreement

Finding No. 2 – Undocumented Expenditures

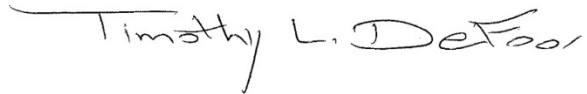
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings

Finding No. 4 – Inadequate Signatory Authority For The Disbursement Of Funds

Finding No. 5 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage

We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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.

Timothy L. DeFoor
Auditor General
December 9, 2021

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code¹, and the Volunteer Firefighters' Relief Association Act² ("VFRA Act"), 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 Law³ (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.

The VFRA Act 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, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, 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>	<u>2020</u>
Freemansburg Borough	Northampton	\$ 11,648	\$ 12,789	\$ 12,903

¹ 72 P.S. § 403 (as last amended by Act 44 of 2017).

² 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

³ 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

BACKGROUND – (Continued)

Based on the relief association's records, its total cash and investments as of December 31, 2020 were \$177,657, as illustrated below:

Cash	\$ 63,315
Fair Value of Investments	28,831
Book Value of Other Investments	<u>85,511</u>
Total Cash and Investments	<u>\$ 177,657</u>

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$40,859, 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.⁴ **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	\$ 5,978
Death benefits	<u>1,500</u>
Total Benefit Services	<u>\$ 7,478</u>

Fire Services:

Equipment purchased	\$ 26,609
Equipment maintenance	<u>4,727</u>
Total Fire Services	<u>\$ 31,336</u>

Administrative Services:

Other administrative expenses	\$ 121
Bond premiums	<u>524</u>
Total Administrative Services	<u>\$ 645</u>

Other Expenditures:

Undocumented expenditures	<u>\$ 1,400</u>
Total Expenditures	<u>\$ 40,859</u>

⁴ 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:

Freemansburg Fire Company No. 1

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Unauthorized Expenditures

By receiving reimbursement of \$11,279 from the affiliated fire company for the unauthorized expenditures made in the prior audit period.

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not fully complied with three of the five prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure To Comply With Terms Of Mortgage Agreement

- Failure To Maintain Minutes Of Meetings

Although some meeting minutes were maintained during the audit period, as noted in Finding No. 3 of the current audit report, the minutes provided for the current audit period were found to be inadequate.

- Failure To Maintain Surety (Fidelity) Bond Coverage

Although the relief association had bonding in place during the audit period, as noted in Finding No. 5 of the current audit report, the relief association maintained insufficient surety (fidelity) bond coverage during the post audit period.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Comply With Terms Of Mortgage Agreement

Condition: On March 4, 2012, the relief association made a mortgage to the Freemansbug Fire Company No. 1, Inc. in the amount of \$100,000; however, the relief association did not receive the monthly payments due for January 1, 2016 to August 31, 2021.

A similar condition was noted in our prior audit report.

Criteria: The terms of the mortgage agreement state that payments of \$555 will be due on a monthly a basis, which began in April 2012.

Cause: According to relief association officials, recouping the missed payments from the fire company would have significantly hurt the fire company's financial assets.

Effect: Due to the relief association not receiving the scheduled loan payments, funds were unavailable for general operating expenses or for investment purposes.

Recommendation: We again recommend that the relief association officials become familiar with guidelines regarding the management of mortgages. 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 action has been taken to correct the discrepancy. Subsequent to the period under review, effective September 8, 2021, the relief association received payment for the missing principal payments, interest payments, and the balance due on the mortgage as the property involved with the mortgage was sold.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

FREEMANSBURG VOLUNTEER FIREMEN’S RELIEF ASSOCIATION, INC.
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Expenditures

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

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
12/03/18	1172	Cash	\$ 600
01/11/19	1173	Cash	800
Total			\$ 1,400

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 supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: The relief association’s previous administration withdrew funds to pay for office supplies but did not retain receipts and deposit slips.

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.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 \$1,400 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: Compliance will be subject to verification through our next audit.

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings

Condition: Although the relief association held some meetings during the audit period and maintained minutes of those meetings, the relief association failed to hold all required meetings and to maintain detailed minutes of meetings as required by VFRA Act and the relief association's bylaws. Specifically, the relief association did not hold meetings until May 13, 2019 and when meetings were finally held, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period.

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.

In addition, the relief association's bylaws at Article 2, Section 3 states, in part:

The secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note authorization by the membership of all association financial transactions and all other pertinent business discussed at meetings.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Further, the relief association's bylaws at Article 1, Section 1 states, in part:

Regular meetings of this association shall be held on any Thursday of January, April, July, and October.

Cause: Relief association management stated the previous administration officials failed to document meeting minutes and did not provide a reason for why certain meetings were not held.

Effect: Without holding regular meetings and maintaining 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 hold all required meetings and 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 4 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified one check drawn on the relief association's checking account that only contained the signature of one officer while another check was issued without any signatures. Two signatures are required by VFRA Act and the relief association bylaws. Issuing checks with the signature of only one officer or no signatures negates the relief association's internal control over the disbursement process.

Criteria: Section 7415(c)(3) of Act 118 states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

In addition, the relief association's bylaws at Article 7, Section 1 states:

The signatures of at least two officers, one of whom shall be the treasurer, shall be required for the issuance of relief association checks, withdrawal from the association savings account, redemption of any relief association investment, or on any other negotiable instrument issued by the association.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: Relief association management stated the previous administration did not adhere to the association's internal controls and issued the two checks without the required authorized signatures.

Effect: As a result of the relief association officer issuing checks with only one signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118. 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.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage

Condition: Subsequent to the period under review and beginning on September 8, 2021, the relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$100,000; however, as of September 30, 2021, the relief association's cash assets totaled \$155,285.

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: Insufficient officer's bond coverage occurred due income received by the relief association from the sale of the mortgage property as noted in Finding No. 1 of this audit report.

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

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by VFRA Act. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the 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 will take action to comply with the recommendation.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Freemansburg Volunteer Firemen's Relief Association, Inc. Governing Body:

Mr. Ryan Micolochick
President

Mr. Kenneth L. Wright
Vice President

Ms. Tina Getz
Secretary

Mr. Robert Demyan
Treasurer

Mr. David Kindrew
Trustee

Mr. Michael Micolochick, Jr.
Trustee

Mr. Jayden Caraballo
Trustee

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.
REPORT DISTRIBUTION LIST

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

Mr. Jonathan Itterly
Secretary
Freemansburg 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.