

COMPLIANCE AUDIT

Freemansburg Volunteer Firemen's Relief Association, Inc. of the State of Pennsylvania Northampton County For the Period January 1, 2016 to December 31, 2017

April 2019



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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Angelo L. Fetter, President
Freemansburg Volunteer Firemen's Relief
Association, Inc. of the State
of Pennsylvania
Northampton County

We have conducted a compliance audit of the Freemansburg Volunteer Firemen's Relief Association, Inc. of the State of Pennsylvania (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 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 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 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 copies of the bank statements that indicated that, as of December 31, 2017, the relief association had a cash balance of \$55,311 and an investment balance with a fair value of \$27,162, we were not able to verify those cash and investment balances.

Based on our audit procedures, we conclude that, for the period January 1, 2016 to December 31, 2017:

- Except for the effects, if any, of the matter described in the preceding paragraph, the relief association took appropriate corrective action to address one of the three findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- Because of the significance of the matters described in the findings below and discussed later in this report, 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 – Failure To Comply With Terms Of Mortgage Agreement

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Minutes Of Meetings

Finding No. 5 – Failure To Maintain Surety (Fidelity) Bond Coverage

The five 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.

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.

March 28, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

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>
Freemansburg Borough	Northampton	\$14,148	\$12,785

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, Inc.

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

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain A Complete And Accurate Membership Roster

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

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure To Maintain A Complete And Accurate Equipment Roster
- Failure To Maintain Minutes Of Meetings

We are concerned by the relief association's failure to correct those previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC. OF THE
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Comply With Terms Of Mortgage Agreement

Condition: On March 4, 2012, the relief association made a mortgage to the Freemansburg Fire Company No. 1, Inc. in the amount of \$100,000; however, the relief association did not receive the monthly mortgage payments due for January 1, 2016 through October 31, 2018.

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

Cause: Relief association officials failed to implement sufficient internal control procedures to ensure prudent administration of its mortgage investment, which includes ensuring mortgage payments are collected in accordance with the payment schedule outlined in the mortgage agreement and safeguarding the return of mortgage principal to the relief association.

Effect: Due to the relief association's failure to monitor the terms of the mortgage agreement, funds were unavailable for general operating expenses or for investment purposes. Not aggressively pursuing delinquent mortgage payments due to the relief association increases the likelihood that they will become uncollectible. Continued lack of good faith action by relief officials to pursue collection of the mortgage payments due and protect the benefits of the relief association's investment may jeopardize the relief association's receipt of any future state aid funding allocations.

Recommendation: We recommend that the relief association officials take immediate action to collect \$18,870 representing delinquent payments due to the relief association through October 2018. We further recommend that relief association officials ensure future payments are received in accordance with the mortgage agreement. If such action is not taken, we recommend that the mortgage be immediately liquidated. 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. OF THE
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

Date	Check No.	Description	Amount
07/31/17	1163	Personal loan 1-year term	\$ 3,000
12/12/16	1150	Down payment on 31 non-reflective and non-fire retardant member jackets	1,000
01/27/17	1151	Balance due on 31 non-reflective and non-fire retardant member jackets	1,722
07/31/17	1162	Commercial lawn mower engine and muffler	2,257
07/31/17	1164	Commercial lawn mower	6,300
Total			<u>\$ 14,279</u>

The \$3,000 expenditure was for a loan to the relief association President, which was reimbursed on August 22, 2017. Such expenditures are not authorized by Act 118. In addition, the costs associated with the purchase of non-reflective and non-retardant member jackets and the purchase of the commercial lawn mower do not qualify as authorized volunteer firefighters’ relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Criteria: Section 7416(f) of Act 118 states:

The funds of any volunteer firefighters’ relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

Furthermore, Section 7416(f) of Act 118 states:

The funds of any volunteer firefighters’ relief association may be spent:

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC. OF THE
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118. 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 be reimbursed \$11,279 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of Act 118 to aid them in determining the propriety of 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 did not agree with the finding as presented at the audit exit conference and stated the coats are part of the firefighters uniforms for cold weather and the commercial lawnmowers with their accessories should be allowed because the relief association holds the deed to the property involved with the mortgage granted to the fire company.

Auditor's Conclusion: The above noted expenditures are not authorized by Act 118. Therefore, the finding remains as stated. 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. 3 – Noncompliance With Prior Audit Recommendation – 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, this listing only documented equipment purchased up to the year 2012. The relief association purchased \$4,152 of equipment during the current audit period, but none of those purchases were properly accounted for on the relief association's equipment roster. In addition, 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.

A similar condition was noted in our prior audit report.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC. OF THE
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The continued 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 again 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.

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.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC. OF THE
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Minutes Of Meetings

Condition: The relief association did not maintain minutes of meetings as required by Act 118.

A similar condition was noted in our prior audit report.

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.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to maintain minutes in accordance with Act 118.

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

Recommendation: We again recommend that the relief association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record 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.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC. OF THE
STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: Subsequent to the period under review the relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. The relief association's Surety (Fidelity) bond coverage expired on August 31, 2018. As of September 1, 2018, the relief association's cash assets totaled \$46,939.

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 neglected to maintain internal control procedures to ensure the relief association adhered to the Act 118 provision requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's 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 obtain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required 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. OF THE
STATE OF PENNSYLVANIA
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is 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.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC. OF THE
STATE OF PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$	55,311
Fair Value of Investments		27,162
Book Value of Other Investments		<u>85,511</u>
Total Cash and Investments	\$	<u><u>167,984</u></u>

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC. OF THE
STATE OF PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 3,990
Death benefits	4,500
Relief benefits	570
Total Benefit Services	\$ 9,060
Fire Services:	
Equipment purchased	\$ 4,152
Equipment maintenance	2,085
Total Fire Services	\$ 6,237
Administrative Services:	
Officer compensation	\$ 700
Other administrative expenses	864
Total Administrative Services	\$ 1,564
Other Expenditures:	
Unauthorized expenditures *	\$ 14,279
Total Expenditures	\$ 31,140

* During August of 2017, the relief association was reimbursed \$3,000 of the total \$14,279 in unauthorized expenditures that were made during the audit period. See Finding No. 2 for additional information.

FREEMANSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC. OF THE
STATE OF PENNSYLVANIA
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. of the State of Pennsylvania
Governing Body:

Mr. Angelo L. Fetter
President

Mr. Robert Demyan
Treasurer

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

Mr. Gerald Gasda
Borough Manager
Freemansburg Borough

Mr. Homer G. Lorrh
Council President
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.