

COMPLIANCE AUDIT

Lehigh Township Volunteer Fireman's Relief Association Northampton County, Pennsylvania For the Period January 1, 2011 to December 31, 2018

May 2019



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



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Jonathan G. Hammel, President
Lehigh Township Volunteer Fireman's
Relief Association
Northampton County

We have conducted a compliance audit of the Lehigh Township Volunteer 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, 2011 to December 31, 2018.

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 issued in 2013 and covering the period January 1, 2008 to December 31, 2010.
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.

Prior to the start of this audit, the Department of the Auditor General learned of alleged illegal activities within the relief association. These activities called into question the reliability of the evidence that we used to determine the relief association's compliance with applicable requirements as reported in previously issued audit reports for the periods January 1, 2011 to December 31, 2013 and January 1, 2014 to December 31, 2016. As a result, the affected relief association's audit reports issued in April 2015 and February 2018, respectively, were formally withdrawn and pending reissuance after our evaluation of recently obtained additional evidence applicable to the aforementioned prior audit periods. Because of the withdrawal of the two previous reports, the audit period for this engagement was January 1, 2011 to December 31, 2018, and the reissuance of the aforementioned reports is satisfied by the issuance of this audit report which includes the prior audit review periods in addition to the January 1, 2017 to December 31, 2018 period.

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. The potential existence of illegal activities prompted the expansion of our standard audit methodology typically employed to enable us to be able to provide a reasonable basis for our conclusions. Our audit procedures included extensive testing of relief association invoices, bank statements, and available cancelled checks, in addition to confirmations with relief officials, vendors and banking institutions to determine the propriety of expenditures made during the audit period. 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, 2011 to December 31, 2018:

- The relief association took appropriate corrective action to address the findings contained in our prior audit report.
- Because of the significance of the matter described in Finding No. 1 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 – Unauthorized Expenditures And Withdrawals Due To
Potential Misappropriation Of Assets

Finding No. 2 – Payment Of Pennsylvania Sales Tax

Finding No. 3 – Inadequate Minutes Of Meetings

The three findings contained in this report cite conditions that existed in the operation of the relief association during the audit period. We are concerned by the nature of these conditions and strongly encourage the timely implementation of the recommendations included in this audit report.

Our department cooperated in an investigation by the Lehigh Township Police Department, Northampton County, into alleged illegal activities regarding the relief association. The results and findings of this audit report have been forwarded to the police department for their review and whatever further action it may deem appropriate and necessary.

We are also providing a copy of the audit report to the Northampton County, Pennsylvania District Attorney's Office for the office to determine whether any criminal laws of this Commonwealth have been violated and/or for whatever action it may deem appropriate and necessary.

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. This information was subject to audit procedures performed during the course of this compliance audit however, we express no form of assurance on it. Refer to the Background section and the Supplementary Financial Information section of this report for additional details.

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.

April 1, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Unauthorized Expenditures And Withdrawals Due To Potential Misappropriation Of Assets	4
Finding No. 2 – Payment Of Pennsylvania Sales Tax	6
Finding No. 3 – Inadequate Minutes Of Meetings	7
Potential Withhold of State Aid	9
Supplementary Financial Information	10
Report Distribution List	12

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 the following state aid from Lehigh Township in Northampton County:

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$126,002	\$72,088	\$81,801	\$76,942	\$72,774	\$72,681	\$65,861	\$59,981

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:

Lehigh Township Volunteer Fire Company No. 1

LEHIGH TOWNSHIP VOLUNTEER 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:

- Unauthorized Expenditures

By receiving reimbursement of \$1,665 from the affiliated fire company for the unauthorized expenditures made in the prior audit period.

- 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.

LEHIGH TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures And Withdrawals Due To Potential Misappropriation Of Assets

Condition: Documentation that we reviewed during the audit supports allegations that the former relief association treasurer made unauthorized expenditures and withdrawals totaling \$314,934 during the period January 1, 2011 to December 31, 2018. Evidence indicates that the former treasurer wrote checks made payable to himself that he subsequently cashed, issued checks to vendors for personal gain, and used the relief association bank debit card for personal purchases and ATM withdrawals. In order to conceal his activities, the former treasurer fabricated false bank statements, cancelled checks, invoices, meeting minutes, and equipment inventories. The separate categories to support allegations of unauthorized expenditures and withdrawals due to potential misappropriation of assets are listed below:

Total Unauthorized Expenditures and Withdrawals Due To Potential Misappropriation Of Assets by Former Treasurer During the Period January 1, 2011 Through July 31, 2018	
	Amount
Checks Written Matching Amount from Fictitious Vendor Invoices	\$ 19,879
Checks Written by the Former Treasurer to Himself	\$ 211,730
Debit Card Expenditures from the Relief Association (RA) Checking Account	\$ 73,745
RA Checks Written by the Former Treasurer to Vendors for Non-RA Purposes	\$ 9,580
Total Unauthorized Expenditures and Withdrawals:	\$ 314,934

The following are examples of questionable purchases and withdrawals that were made by the former relief association treasurer:

Examples of Questionable Purchases/Withdrawals Made By Former Treasurer	Amounts
Bank Counter Withdrawals	\$ 4,000
ATM Withdrawals	\$ 8,285
NFL Tickets	\$ 525
Myrtle Beach Resort	\$ 536
Personal Cell Phone	\$ 5,584
Loan Payments for Personal Vehicles	\$ 23,018
IKEA Furniture	\$ 1,670
Golf Trek	\$ 874
Blue Mountain Ski Resort	\$ 2,089
Sports Authority	\$ 379
PPL Electric	\$ 5,569
Black & Decker	\$ 807
Lowe's	\$ 746

LEHIGH TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: Act 118 at 53 P.S. § 8507(a) states, in part:

The Department of the Auditor General shall have the power, and its duty shall be, to audit the accounts and records of every volunteer firefighters' relief association receiving any 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 amended, as far as be necessary to satisfy the department that the money received was expended or is being expended for no purpose other than that authorized by this act.

Also, 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, Article VII, Section 2, of the relief association's bylaws states:

All expenditures made by this Association must be for the benefit of Active or Life members in accordance with Act 84 and the Associations By-Laws.

Furthermore, Article VII, Section 8, of the relief association's bylaws states:

All expenditures of the association must be approved at a regular meeting of the Lehigh Township Volunteer Fireman's Relief Association.

Prudent business practice also dictates that management must establish an adequate internal control system to ensure that its operations are functioning in a manner that achieves the entity's mission while safeguarding its assets.

Cause: Relief association officials failed to establish an adequate internal control system to ensure the propriety of all expenditures and that relief association monetary assets were adequately protected. These internal control weaknesses included, but not limited to, the following:

- Inadequate segregation of duties.
- Bank reconciliations were not performed.
- Financial related activities were not presented, discussed, and approved at relief association meetings.
- Detailed minutes of meetings were not maintained (Refer to Finding No. 3 of this report for additional information).
- Periodic physical inventories of equipment owned were not performed.

LEHIGH TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As a result of the inadequate internal control system, \$314,934 of relief association monies were used for unauthorized purposes, and therefore were not available for authorized relief association activities. 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 seek reimbursement of \$314,934 for the unauthorized use of assets. We also recommend that the relief association officials develop and implement written internal control procedures which will require the following:

- Adequate segregation of duties to safeguard the relief association assets.
- Approval of expenditures by two relief association officials prior to payment of purchases with evidence of approval via signatures.
- Presentation, discussion, and approval of financial activities at relief association meetings.
- Maintenance of detailed meeting minutes and application of the signatures of two relief association officials on meeting minutes.
- Maintenance of an ongoing, cumulative roster of relief association equipment.
- Periodic physical inspections of equipment owned that is documented and retained.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION.

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 – Payment Of Pennsylvania Sales Tax

Condition: During the audit period, the relief association paid \$859 of Pennsylvania sales tax to vendors from which the relief association purchased equipment. These payments would not have been required if the relief association had provided a valid sales tax exemption number to the vendors. Furthermore, the relief association failed to maintain a Pennsylvania sales tax exemption number. Although the relief association did have its own sales tax exemption number, it expired on June 1, 2010, and is no longer valid.

LEHIGH TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 vendors, the relief association was required to pay Pennsylvania sales tax on its purchases totaling \$859, which reduced the funds otherwise available for general operating expenditures and for investment purposes.

Recommendation: We recommend that the relief association officials obtain a valid sales tax exemption number and seek a refund of the sales tax paid, in the amount of \$859, 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.

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 – Inadequate Minutes Of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings as required by Act 118 and the relief association's bylaws. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period and the meeting bylaws do not appear to address when regular meetings are to be held, only the meetings for the Board of Directors. In addition, during the period under review, it appears that the former treasurer fabricated the purported meeting minutes that were presented to the auditor.

LEHIGH TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 II, Section 2 states:

The Board of Directors shall meet a minimum of five times yearly.

Furthermore, the relief association's bylaws at Article VII, Section 8 states:

All expenditures of the association must be approved at a regular meeting of the Lehigh Township Volunteer Fireman's Relief Association.

Cause: Relief association officials indicated that they were unaware that maintaining detailed minutes of meetings was required by 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 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. We also recommend that the relief association officials amend their bylaws to include when regular meetings are to be held for relief association members. 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.

LEHIGH TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 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.

LEHIGH TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2018

Cash	<u>\$ 37,447</u>
------	------------------

LEHIGH TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2011 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 49,559
Fire Services:	
Equipment purchased	\$ 339,295
Equipment maintenance	103,156
Training expenses	18,606
Total Fire Services	\$ 461,057
Administrative Services:	
Officer compensation	\$ 75
Other administrative expenses	1,047
Bond premiums	500
Total Administrative Services	\$ 1,622
Other Expenditures:	
Payment of PA Sales Tax – See Finding No. 2	\$ 859
Undocumented expenditure *	39
Unauthorized Expenditures/Withdrawals**	314,934
Total Other Expenditures	\$ 315,832
Total Expenditures	\$ 828,070

* The relief association was unable to provide adequate supporting documentation evidencing the propriety of an insignificant expenditure amounting to \$39 made during 2017. We disclosed this issue to relief association officials during the conduct of our audit.

** This total represents potential misappropriation of assets by the former treasurer for the period January 1, 2011 to December 31, 2018 which were not authorized expenditures under Act 118 as noted in Finding No. 1. We disclosed this issue to relief association officials on February 1, 2019.

LEHIGH TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Lehigh Township Volunteer Fireman's Relief Association Governing Body:

Mr. Jonathan G. Hammel
President

Mr. Travis M. Wuchter
Vice President

Mr. Kevin Sommer
Secretary

Mr. Bryan R. Fritz
Treasurer

Mr. Daryl Hassler
Trustee

Mr. Brian Krische
Trustee

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

Ms. Alice A. Rehrig
Secretary
Lehigh Township

In addition, a report was distributed to the following law enforcement:

Chief Scott M. Fogel
Chief of Police
Lehigh Township Police Department

Detective Matthew E. Enstrom
Lehigh Township Police Department

LEHIGH TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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.