

COMPLIANCE AUDIT

The Firemen's Relief Association of Narberth, Pennsylvania Montgomery County For the Period January 1, 2017 to December 31, 2018

August 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Edwin Walker, President
The Firemen's Relief Association of
Narberth, Pennsylvania
Montgomery County

We have conducted a compliance audit of the Firemen's Relief Association of Narberth, 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, 2017 to December 31, 2018.

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.

We were not able to obtain independent confirmations of the cash balance and the investment balance directly from the financial institutions. Therefore, while the relief association provided bank and investment statements that indicated that, as of December 31, 2018, the relief association had a cash balance of \$83,958 and an investment balance with a fair value of \$66,397, we were not able to verify those cash and investment balances.

Based on our audit procedures, we conclude that, because of the significance of the matter described in the findings below and discussed later in this report and the effects, if any, of the matter described in the preceding paragraph, 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, for the period January 1, 2017 to December 31, 2018. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Inadequate Signature Authority For The Disbursement Of Funds

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.

August 20, 2019



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>2017</u>	<u>2018</u>
Narberth Borough	Montgomery	\$35,478	\$32,436 *

* Although Narberth Borough prepared and returned a Certification Form AG 385 for 2018, the date the borough distributed the 2018 state aid to the relief association could not be determined because the borough failed to submit a Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this department as required by the instructions accompanying Form 706-B and the 2018 state aid allocation received by the borough disclosing this information.

Narberth Borough is still required to submit a Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this Department as soon as possible.

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:

Narberth Fire Company

THE FIREMEN'S RELIEF ASSOCIATION OF NARBERTH, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

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

Date	Check No.	Payee Description	Amount
01/25/17	802	Insurance vendor	\$ 265
01/25/17	803	Insurance vendor	143
03/16/17	804	Insurance vendor	1,312
03/16/17	805	Insurance vendor	98
03/16/17	806	Insurance vendor	4,477
04/15/17	807	Insurance vendor	286
04/15/17	808	Insurance vendor	265
05/15/17	809	Insurance vendor	777
06/12/17	810	Insurance vendor	750
07/10/17	812	Insurance vendor	249
08/10/17	815	Insurance vendor	417
08/25/17	816	Insurance vendor	879
08/25/17	817	Insurance vendor	4,476
09/29/17	818	Insurance vendor	1,310
10/31/17	819	Insurance vendor	586
10/31/17	820	Insurance vendor	278
11/20/17	822	Insurance vendor	566
12/22/17	823	Insurance vendor	2,771
03/24/18	825	Insurance vendor	325
03/30/18	827	Insurance vendor	957
04/27/18	828	Insurance vendor	88
05/25/18	829	Insurance vendor	1,206
06/10/18	830	Insurance vendor	692
06/28/18	831	Insurance vendor	2,000
07/10/18	832	Training vendor	1,625
09/23/18	836	Insurance vendor	923
03/26/18	839	Insurance vendor	8,328
04/25/18	840	Administrative expenditure	65
04/25/18	841	Insurance vendor	321
Total			<u>\$ 36,435</u>

THE FIREMEN'S RELIEF ASSOCIATION OF NARBERTH, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

Without adequate supporting documentation, such as invoices and/or itemized receipts, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

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. 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 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 \$36,435 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, as a result of our audit, the relief association provided this department with adequate supporting documentation for Check Nos. 832 and 836 totaling \$2,548 on August 9, 2019 and indicated they will take action to comply with the remaining undocumented expenditures of \$33,887.

THE FIREMEN'S RELIEF ASSOCIATION OF NARBERTH, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Auditor's Conclusion: We reviewed supporting documentation verifying the propriety of the \$2,548 expenditures. We continue to 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 remaining expenditures or that the relief association be reimbursed \$33,887 for the remaining undocumented expenditures. 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 – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 4 checks out of 47 checks drawn on the relief association's checking account that only contained the signature of one officer, even though two signatures are required by Act 118 and the relief association bylaws. Two of the checks only contained the signature of the relief association's treasurer. The remaining two checks were signed by one officer; however not cosigned by the disbursing officer as required by Act 118. Issuing checks with the signature of only one officer 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.

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

The president shall preside at all meetings of the Association. He shall sign all checks and other orders for disbursements, including the payment of bills, when such orders are drawn on the "General Fund" and authorized by the Association.

Furthermore, the relief association's bylaws at Article IV, Section 4 states, in part:

The Treasurer shall receive all monies of the Association and sign all checks and other orders for the disbursement of funds from the "General Fund" when authorized by the Association and from the "Relief Fund" when authorized by the Trustees.

THE FIREMEN'S RELIEF ASSOCIATION OF NARBERTH, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Prudent business practice also 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 officials neglected to establish adequate internal control procedures that require the signatures of at least two officers on all negotiable instruments.

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.

THE FIREMEN'S RELIEF ASSOCIATION OF NARBERTH, PENNSYLVANIA
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.

THE FIREMEN'S RELIEF ASSOCIATION OF NARBERTH, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2018

Cash	\$ 83,958
Fair Value of Investments	<u>66,397</u>
Total Cash and Investments	<u>\$ 150,355</u>

THE FIREMEN'S RELIEF ASSOCIATION OF NARBERTH, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	<u>\$ 49,502</u>
Fire Services:	
Equipment purchased	\$ 12,354
Training expenses	<u> 2,175</u>
Total Fire Services	<u>\$ 14,529</u>
Administrative Services:	
Other administrative expenses	\$ 27
Bond premiums	<u> 752</u>
Total Administrative Services	<u>\$ 779</u>
Other Expenditures:	
Undocumented expenditures	<u>\$ 33,887</u>
Total Expenditures	<u><u>\$ 98,697</u></u>

THE FIREMEN'S RELIEF ASSOCIATION OF NARBERTH, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Firemen's Relief Association of Narberth, Pennsylvania Governing Body:

Mr. Edwin Walker
President

Mr. Michael Kennedy
Secretary

Mr. John Thomas, Jr.
Treasurer

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

Mr. Sean Metrick
Secretary
Narberth 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.