

# COMPLIANCE AUDIT

---

## Nazareth Firemen's Relief Association Northampton County, Pennsylvania For the Period January 1, 2020, to December 31, 2022

---

January 2024



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



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

**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. Mark Morella, President  
Nazareth Firemen's Relief Association  
Northampton County

We have conducted a compliance audit of the Nazareth Firemen's Relief Association (relief association) for the period January 1, 2020, to December 31, 2022. 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 ("VFRA Act"), see 35 Pa.C.S. § 7418.

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 a portion of the cash balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2022, the relief association had a cash balance of \$399,696, we were not able to verify a portion of this cash balance.

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, 2020, to December 31, 2022:

- The relief association took appropriate corrective action to address two of the four 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.
- 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 Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

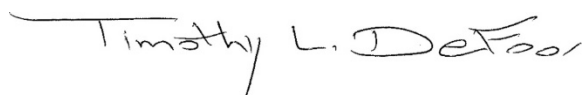
Finding No. 3 – Inadequate Financial Record-Keeping System

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

We have also issued the observation below as detailed in the Observation section of this report.

Observation – FDIC Coverage Limits Exceeded

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.



Timothy L. DeFoor  
Auditor General  
December 20, 2023

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings .....	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster .....	6
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Pennsylvania Sales Tax Exemption Number.....	7
Finding No. 3 – Inadequate Financial Record-Keeping System.....	8
Observation:	
Observation – FDIC Coverage Limits Exceeded.....	10
Report Distribution List .....	11

## BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code<sup>1</sup>, and the Volunteer Firefighters' Relief Association Act<sup>2</sup> ("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 Law<sup>3</sup> (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 relief association officers therefore have a responsibility to the public to conduct the relief association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all relief association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the relief 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.

---

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

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

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

**BACKGROUND – (Continued)**

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Nazareth Borough	Northampton	\$31,609	\$28,600	\$36,049

Based on the relief association’s records, its total cash and investments as of December 31, 2022, were \$474,696, as illustrated below:

Cash	\$ 399,696
Fair Value of Investments	<u>75,000</u>
Total Cash and Investments	<u><u>\$ 474,696</u></u>

## BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2022, were \$127,837, 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.<sup>4</sup> **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	\$ 36,583
--------------------	-----------

#### Fire Services:

Equipment purchased	\$ 55,827
---------------------	-----------

Equipment maintenance	22,150
-----------------------	--------

Training expenses	3,429
-------------------	-------

Total Fire Services	<u>\$ 81,406</u>
---------------------	------------------

#### Administrative Services:

Bond premiums	\$ 642
---------------	--------

Officer compensation	8,225
----------------------	-------

Other administrative expenses	716
-------------------------------	-----

Total Administrative Services	<u>\$ 9,583</u>
-------------------------------	-----------------

#### Other Expenditures:

Unauthorized expenditure – Sales Tax*	\$ 121
---------------------------------------	--------

Bank fees	144
-----------	-----

Total Other Expenditures	<u>\$ 265</u>
--------------------------	---------------

Total Expenditures	<u><u>\$ 127,837</u></u>
--------------------	--------------------------

\* During calendar year 2020, the relief association made a \$121 disbursement for the payment of sales tax on a purchase that was authorized under the VFRA Act. We disclosed this issue to relief association officials on September 14, 2023, but we did not include a finding in this report due to the relatively low dollar amount.

---

<sup>4</sup> 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:

Vigilance Hose Company No. 1



NAZARETH FIREMEN'S RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Undocumented Expenditure

By providing adequate documentation to evidence the propriety of the undocumented expenditure that was 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.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with two of the four 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 A Pennsylvania Sales Tax Exemption Number

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

NAZARETH FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – 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 during the current audit, this listing was incomplete and did not accurately identify all of the equipment owned by the relief association. The relief association purchased \$55,827 of equipment during the current audit period, but the equipment for \$20,357 of those purchases was not properly accounted for on the relief association's equipment roster. Additionally, the equipment roster failed to document the names of suppliers (vendors), dates of purchase, serial numbers, and the locations to accurately identify equipment owned by the relief association. Finally, there was insufficient documentation to support 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.

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 and perform and document an annual physical inventory of all operable equipment 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: The relief association officials did not provide a reason why this occurred.

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 sufficiently document the performance of an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

NAZARETH FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

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.

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. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Pennsylvania Sales Tax Exemption Number**

Condition: 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 January 31, 1994, and is no longer valid. Furthermore, the relief association paid \$121 in Pennsylvania sales tax on an expenditure made in 2020.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(e) of the VFRA Act 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: During a change in relief association officials, there was an oversight, and the application for a valid sales tax exemption number was not processed.

NAZARETH FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Effect: As a result of the relief association's continued failure to maintain a sales tax exemption number, the relief association was required to pay Pennsylvania sales tax on an expenditure, which ultimately reduced the funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We again recommend that the relief association officials immediately reapply for a new state sales tax exemption number from the Department of Revenue and furnish this exemption number to all vendors from whom the relief association purchases equipment. Furthermore, we recommend that the relief association officials seek a refund of the sales tax paid, in the amount of \$121, by filing an appeal form (REV-65BA) with the Pennsylvania Department of Revenue's Board of Appeals. 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. 3 – Inadequate Financial Record-Keeping System**

Condition: The relief association has failed to establish adequate internal controls. The following conditions noted during the current audit period are indicative of internal control weaknesses:

- Journals were not maintained to record the receipts and disbursements of the relief association.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Original invoices were not maintained by the relief association.
- Six certificate of deposit interest income checks, totaling \$167, were not deposited.

Criteria: Section 7415(a) of the VFRA Act 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.

NAZARETH FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

In addition, Article VI, Section 4 of the relief association's bylaws states, in part:

- The Treasurer shall keep a true and correct account of all monies belonging to the association and shall make disbursements of the same.

Furthermore, prudent business practice dictates that:

- Journals should be utilized as a means of recording the relief association's financial transactions.
- Ledgers should be utilized as a means of categorizing the different revenue and expenditures transactions.
- Original invoices shall be maintained to support the payment of purchases.
- All revenues received shall be deposited on a timely basis.

Finally, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association assets.

Cause: The relief association officials did not provide a reason why this occurred.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We recommend that the relief association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations. 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.

NAZARETH FIREMEN'S RELIEF ASSOCIATION  
OBSERVATION

**Observation – FDIC Coverage Limits Exceeded**

As disclosed in a verbal observation in the two previous audits, the relief association again failed to ensure that all cash deposits were below the FDIC coverage limits per account ownership in one institution. As of December 31, 2022, the relief association's ending cash balance with the financial institution amounted to \$257,303.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United States government that protects the funds depositors place in banks and savings associations. FDIC insurance is backed by the full faith and credit of the United States government.

FDIC insurance covers all deposit accounts, including:

- Checking accounts
- Savings accounts
- Money market accounts
- Certificates of deposit

FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual funds, life insurance policies, annuities and securities. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.

Section 7413 of the VFRA Act states that the purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure as far as circumstances will reasonably permit, that the funds shall be available for the protection of the volunteer firefighters' and their heirs.

Furthermore, prudent business practice dictates that in addition to performing monthly bank reconciliations, the relief association should ensure the relief association's cash balance does not exceed FDIC limits set by banking regulations. Lack of effective monitoring of relief association cash and investment assets places the relief association funds at greater risk for loss.

The relief association should monitor all cash and investment assets that are eligible for FDIC insurance and ensure the balance of those assets per banking institution does not exceed FDIC coverage limits.

NAZARETH FIREMEN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

Nazareth Firemen's Relief Association Governing Body:

**Mr. Mark Morella**  
President

**Mr. Cody Hendershot**  
Vice President

**Ms. Deb Niedermeyer**  
Secretary

**Ms. Colleen J. Stevenson**  
Treasurer

**Mr. Franklin Betz, III**  
Trustee

**Mr. Alan Koch**  
Trustee

**Mr. Scott Bauder**  
Trustee

**Mr. Michael White**  
Trustee

**Ms. Savannah Bogari**  
Trustee

NAZARETH FIREMEN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

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

**Mr. Paul A. Kokolus**  
Secretary  
Nazareth Borough

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).