

COMPLIANCE AUDIT

The Northampton Firemen's Relief Association

Northampton County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2018

October 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. John Pedersen, President
The Northampton Firemen's
Relief Association
Northampton County

We have conducted a compliance audit of The Northampton Firemen'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, 2017 to December 31, 2018.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding 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 a portion of the cash balance and the investment balance directly from the financial institution. 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 \$187,400 and an investment balance with a fair value of \$455,102, we were not able to verify a portion of the cash balance and the investment balance.

We were also not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

Based on our audit procedures, we conclude that, for the period January 1, 2017 to December 31, 2018:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- Because of the significance of the matters described in the findings below and discussed later in this report and the effects, if any, of the matters described in the preceding paragraphs, 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 Secure Ownership Interest In Jointly Purchased Vehicle

Finding No. 2 – Failure To Deposit Proceeds From Equipment Sold

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.

September 30, 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>
Northampton Borough	Northampton	\$52,199	\$47,529

The volunteer firefighters’ relief association and the affiliated fire service organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Alliance Fire Company No. 1

Central Fire Company, Inc.

Northampton Fire Company No. 1

THE NORTHAMPTON FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the following prior audit finding, as follows:

- Failure To Maintain A Complete And Accurate Equipment Roster

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

THE NORTHAMPTON FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Condition: On September 7, 2017, the relief association expended \$15,000 for the purpose of jointly purchasing a 2018 Pierce Pumper with Northampton Borough. However, the relief association did not adequately secure its ownership interest in this jointly purchased vehicle as the vehicle was titled solely in the name of Northampton Borough.

Criteria: Section 7418(a) of Act 118 states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold.

Cause: Relief association officials failed to implement internal controls to ensure that it adequately secured its proportional ownership interest in the jointly purchased vehicle.

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicle places the relief association's ownership interest at greater risk. 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 execute a formal written agreement with Northampton Borough that enumerates the relief association's proportional ownership interest in the jointly purchased vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$15,000. 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.

THE NORTHAMPTON FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 – Failure To Deposit Proceeds From Equipment Sold

Condition: The relief association's January 23, 2018 meeting minutes recorded that Hurst tools were sold to a nearby borough for \$10,000. However, the proceeds from the sale of the safeguard equipment owned by the relief association were not deposited into a relief association account.

Criteria: Prudent business practice dictates that the relief association should closely monitor that all proceeds from equipment sold are received and timely deposited into a relief association account.

Cause: Relief association officials failed to establish internal control procedures to ensure that all proceeds from equipment sold were timely deposited into a relief association account.

Effect: The failure to deposit all relief association proceeds from equipment sold in a timely manner can lead to a greater risk that funds could be lost or misappropriated. As a result of the proceeds from equipment sold not being deposited into a relief association account, the relief association was unable to use the funds to purchase replacement equipment, for general operating expenses, or for investment purposes. 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 deposit the proceeds from the equipment sold or be reimbursed \$10,000. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all proceeds from equipment sold are timely deposited into a relief association account. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management disagreed with the finding as presented at the audit exit conference. The relief association management indicated that the minutes were incorrect and that the equipment sold was in fact fire department equipment and the minutes would be amended; however, no documentation to support this assertion was provided to the auditor when asked to provide paperwork to support the sale. Relief officials stated that they have no paperwork from the sale and we would need to contact the fire department.

THE NORTHAMPTON FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Auditor's Conclusion: Because we are unable to determine if the equipment sold was relief association equipment due to lack of documentation, the finding remains as stated. Relief association management should provide this Department with documentation to support their assertion that the equipment sold was fire department equipment or the relief association should be reimbursed \$10,000 for the equipment sold. 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.

THE NORTHAMPTON FIREMEN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 1 and 2 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are 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 NORTHAMPTON FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2018

Cash	\$ 187,400
Fair Value of Investments	<u>455,102</u>
Total Cash and Investments	<u><u>\$ 642,502</u></u>

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

Expenditures:

Benefit Services:	
Insurance premiums	\$ 16,320
Death benefits	3,000
Total Benefit Services	<u>\$ 19,320</u>
Fire Services:	
Equipment purchased	\$ 197,134
Equipment maintenance	9,730
Total Fire Services	<u>\$ 206,864</u>
Administrative Services:	
Officer compensation	\$ 5,700
Other administrative expenses	6,331
Bond premiums	533
Total Administrative Services	<u>\$ 12,564</u>
Total Investments Purchased	<u>\$ 56,027</u>
Total Expenditures	<u><u>\$ 294,775</u></u>

THE NORTHAMPTON FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Northampton Firemen's Relief Association Governing Body:

Mr. John Pedersen
President

Mr. Michael Holtzman
Treasurer

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

Mr. LeRoy E. Brobst
Secretary
Northampton 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.