

COMPLIANCE AUDIT

Warminster Fire Company #1 Relief Association Bucks County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

January 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Hank Dole, President
Warminster Fire Company #1
Relief Association
Bucks County

We have conducted a compliance audit of the Warminster Fire Company #1 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, 2016 to December 31, 2017.

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 investment balance directly from the financial institutions. Therefore, while the relief association provided investment statements that indicated that, as of December 31, 2017, the relief association had an investment balance with a fair value of \$664,903, we were not able to verify this investment balance.

Based on our audit procedures, we conclude that, 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 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, 2016 to December 31, 2017. 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 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Finding No. 2 – Inappropriate Ownership Of Rescue Vehicles

Finding No. 3 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 4 – Failure To Maintain A Complete And Accurate Membership Roster

Finding No. 5 – Inadequate Minutes Of Meetings

Finding No. 6 – Failure To Adhere To Terms Of Rental Agreement With Affiliated Fire Company

The six 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.

January 3, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Equipment	3
Finding No. 2 – Inappropriate Ownership Of Rescue Vehicles.....	4
Finding No. 3 – Failure To Maintain A Complete And Accurate Equipment Roster.....	5
Finding No. 4 – Failure To Maintain A Complete And Accurate Membership Roster	6
Finding No. 5 – Inadequate Minutes Of Meetings.....	7
Finding No. 6 – Failure To Adhere To Terms Of Rental Agreement With Affiliated Fire Company.....	8
Potential Withhold of State Aid.....	10
Supplementary Financial Information	11
Report Distribution List	13

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>
Warminster Township	Bucks	\$166,412	\$146,889

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:

Warminster Fire Department

WARMINSTER FIRE COMPANY #1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: The relief association expended \$143,099 on radio equipment for a contract issued in the name of the affiliated fire company without properly securing its ownership interest, as detailed below:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
08/09/15	2588	Radio equipment	\$ 33,792
10/26/16	2668	Radio equipment	37,504
10/16/17	2741	Radio equipment	37,504
11/02/17	2745	Radio equipment	34,299
Total			<u>\$ 143,099</u>

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 radio equipment purchased by the relief association by executing a formal written agreement with the affiliated fire company that enumerates the relief association’s proportional share of the cost of the radio equipment.

Cause: Relief association officials failed to adequately secure its proportional ownership interest in the radio equipment for which the relief association purchased.

Effect: The failure to adequately secure the proportional share of ownership interest in the radio equipment for which relief association purchased places the relief association’s ownership interest at greater risk.

WARMINSTER FIRE COMPANY #1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the relief association officials execute a formal written agreement with the affiliated fire company that enumerates the relief association’s proportional ownership interest in the radio equipment. If such action is not taken, we recommend that the relief association be reimbursed \$143,099. 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 officials provided a formal written agreement between the relief association and the fire company on January 7, 2019.

Auditor’s Conclusion: We reviewed the formal written agreement verifying that it contains four signatures. Compliance for any future agreements will be subject to verification through our next audit.

Finding No. 2 – Inappropriate Ownership Of Rescue Vehicles

Condition: During November 30, 2015 to August 21, 2017, the relief association made several payments to purchase one 2017 Spartan Rescue vehicle and one 2017 Chevy Tahoe, amounting to \$689,935 and \$44,458, respectively, to carry personnel and safeguard equipment; however, the titles to these two vehicles were inappropriately issued in the name of the fire company.

Criteria: Prudent business practice dictates that the relief association should maintain sole ownership of all equipment purchased by the relief association. As such, rescue vehicles purchased by the relief association are to be titled in the name of the relief association.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that the rescue vehicles purchased were titled in the name of the relief association.

Effect: As a result of the rescue vehicles being inappropriately titled in the name of the fire company, these relief association assets were not properly safeguarded. Furthermore, the relief association’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that these two rescue vehicles be titled in the name of the relief association. If such action is not taken, we recommend that the relief association be reimbursed \$734,393. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

WARMINSTER FIRE COMPANY #1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 a title in the name of the relief association for the Spartan Rescue vehicle. Relief officials will still need to provide the remaining title for the Chevy Tahoe in the name of the relief association.

Auditor's Conclusion: Due to the potential withhold of state aid, the relief association's full 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 – 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 period, it was incomplete because it did not contain the names of suppliers (vendors) and dates of purchase to accurately identify equipment owned by the relief association. As such, it was impossible to determine if all equipment purchased during the audit period in the amount of \$531,417 was recorded. 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.

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: Relief association officials 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.

WARMINSTER FIRE COMPANY #1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: The 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 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: Compliance will be subject to verification through our next audit.

Finding No. 4 – Failure To Maintain A Complete And Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association’s membership, as identified by criteria set forth in the relief association’s bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members’ mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member’s resignation or death.

Cause: Relief association officials indicated that they were unaware that they should maintain a comprehensive roster of relief association members.

WARMINSTER FIRE COMPANY #1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association’s membership. For additional 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. 5 – 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.

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 4, Section 7 states, in part:

The Secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note authorization by the members of all financial transactions and all other pertinent business discussed at meetings.

Cause: Relief association officials indicated that they were unaware that maintaining detailed minutes of meetings was required by Act 118 and the relief association’s bylaws.

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

WARMINSTER FIRE COMPANY #1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

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. 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. 6 – Failure To Adhere To Terms Of Rental Agreement With Affiliated Fire Company

Condition: During the current and subsequent audit period, the relief association paid a total of \$36,000 to the fire company in rental fees for use of the fire company building, compared to the \$4,500 that was actually due according to the rental agreement in the same 3-year period. The agreement states that the annual rent is \$1,500; however, the relief association paid \$21,000 on November 21, 2017 for the years 2015 and 2016. In addition, the relief association paid \$15,000 on February 1, 2018 for the year 2017. Furthermore, the rental agreement did not include the function and use of each room and the amount of square footage.

Criteria: The terms of the rental agreement state that annual rental of \$1,500 is payable in equal installments in advance on the first day of each month for that month’s rental, beginning on January 1, 2006, and terminating on January 1, 2026.

Although Act 118 includes provisions for the payment of normal and reasonable running expenses as may be appropriate to the business conduct of a relief association’s affairs, the amount of rent paid to the fire company during the period does not follow the terms of the agreement. Prudent business practice also requires that such an agreement clearly specify the function and use of each room/rental space and the amount of square footage, and that an evaluation of the local going rental rate/comps is performed when considering the agreed upon rental payment amount.

As stipulated in Act 118, the primary purpose of a volunteer firefighters’ relief association is to afford financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. However, the payment of rent expense of this magnitude appears to be excessive, unreasonable, and inconsistent with the intent of Act 118, which was enacted to ensure that funds shall be available for the protection of volunteer firefighters’ and their heirs.

WARMINSTER FIRE COMPANY #1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Cause: Relief association officials failed to establish adequate internal control procedures to ensure rental payments were paid in accordance with the terms of the rental agreement.

Effect: Due to the relief association not adhering to the terms of the rental agreement and paying rental payments that were not authorized by the rental agreement, those funds were unavailable 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 officials re-evaluate the payment of rental fees to the fire company and determine whether the amount of rental fees is appropriate considering the intent of Act 118 and the operating needs of the relief association. We also recommend that the relief association be reimbursed \$31,500 for the unauthorized rental payments and that relief association officials become familiar with Section 7416(f) of Act 118 to aid them in determining the propriety of future expenditures. We further recommend that relief association officials ensure future rental payments are paid in accordance with the terms of the rental agreement. 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 officials and the fire company prepared a new rental agreement effective January 1, 2019 through December 31, 2025, whereas the relief association will pay \$1 per month for rental space.

Auditor's Conclusion: Due to the potential withhold of state aid, the relief association's full 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.

WARMINSTER FIRE COMPANY #1 RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 2 and 6 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.

WARMINSTER FIRE COMPANY #1 RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 184,959
Fair Value of Investments	<u>664,903</u>
Total Cash and Investments	<u>\$ 849,862</u>

WARMINSTER FIRE COMPANY #1 RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 59,796
Relief benefits	34,604
Total Benefit Services	\$ 94,400
Fire Services:	
Equipment purchased	\$ 531,417
Equipment maintenance	41,200
Training expenses	4,703
Total Fire Services	\$ 577,320
Administrative Services:	
Rental expenses *	\$ 21,000
Other administrative expenses**	21,613
Bond premiums	962
Total Administrative Services	\$ 43,575
Total Expenditures	\$ 715,295

* During 2017, the relief association made a rental payment for 2015 and 2016 to the affiliated fire company which was not made in accordance with their rental agreement as disclosed in Finding No. 6 in this report.

** During 2016 – 2017, the relief association paid \$19,000 in broker sales commission on the sale of two relief owned vehicles.

WARMINSTER FIRE COMPANY #1 RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Warminster Fire Company #1 Relief Association Governing Body:

Mr. Hank Dole
President

Mr. John Mahon
Vice President

Mr. Vincent Molko
Treasurer

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

Mr. Daniel McPhillips
Secretary
Warminster Township

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.