

COMPLIANCE AUDIT

Warminster Fire Company #1 Relief Association Bucks County, Pennsylvania For the Period January 1, 2018 to December 31, 2019

September 2020



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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Harry 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, 2018 to December 31, 2019.

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.

Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2019:

- The relief association took appropriate corrective action to address five of the six findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the remaining finding 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 Finding – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

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 10, 2020



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.

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

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>
Warminster Township	Bucks	\$133,041	\$141,892

BACKGROUND – (Continued)

Based on the relief association’s records, its total cash and investments as of December 31, 2019 were \$1,027,484, as illustrated below:

Cash	\$	223,546
Fair Value of Investments		<u>803,938</u>
Total Cash and Investments	\$	<u><u>1,027,484</u></u>

Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2019 were \$268,022, 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.¹ **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	\$	76,975
Relief benefits		<u>26,685</u>
Total Benefit Services	\$	<u>103,660</u>
Fire Services:		
Equipment purchased	\$	108,322
Equipment maintenance		28,756
Fire prevention materials		<u>642</u>
Total Fire Services	\$	<u>137,720</u>
Administrative Services:		
Other administrative expenses*	\$	27,797
Bond premiums		<u>845</u>
Total Administrative Services	\$	<u>26,642</u>
Total Expenditures	\$	<u><u>268,022</u></u>

¹ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

BACKGROUND – (Continued)

* A portion of the other administrative expenditures was for overpayment of rent to the affiliated Fire Company. This was addressed during the conduct of our prior audit (see Status Of Prior Audit Findings section, Compliance With Prior Audit Findings and Recommendations of this audit report for additional information).

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
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure To Secure Ownership Interest In Jointly Purchased Equipment

By executing a written formal agreement with the affiliated fire company that adequately secures the relief association's proportional ownership interest in the jointly purchased equipment.

- Inappropriate Ownership Of Rescue Vehicles

By ensuring the titles of the rescue vehicles were transferred to the relief association.

- Failure To Maintain A Complete And Accurate Membership Roster

By maintaining a comprehensive listing of the relief association's membership.

- Inadequate Minutes Of Meetings

By maintaining detailed minutes of all relief association meetings held during the period.

- Failure To Adhere To Terms Of Rental Agreement With Affiliated Fire Company

By re-evaluating the payment of rental fees and entering into a new rental agreement with the fire company. In addition, the relief association received reimbursement of \$31,500 from the affiliated fire company for the overpayment of rental fees made in the prior and current audit periods.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of six prior audit findings. This finding is noted below and discussed in detail in the Finding and Recommendation section of this report:

- Failure To Maintain A Complete And Accurate Equipment Roster

We are concerned by the relief association's failure to correct this previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

WARMINSTER FIRE COMPANY #1 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 period, this listing was incomplete and did not accurately identify all of the equipment owned by the relief association. Specifically, not all equipment purchased during the years 2016 and 2017 was listed on the roster. In addition, a physical inventory of equipment was conducted for equipment purchased in 2018 and 2019 only.

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 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: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures over equipment by not ensuring the maintenance of a cumulative equipment roster of all equipment purchased and the performance of an annual physical inventory of equipment.

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 perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

WARMINSTER FIRE COMPANY #1 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 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

Condition: In August 2000, the relief association had expended \$84,435 towards the joint purchase of a 2000 Pierce Dash Pumper with the affiliated fire company which had a total cost of \$334,245. The relief association entered into an agreement with the affiliated fire company dated October 2, 2003 where the relief association would receive the pro-rata share percentage of 25% if the vehicle was ever sold. In 2017, the jointly purchased vehicle was sold for \$55,000; however, the relief association did not receive and deposit its proportional ownership interest of the proceeds from the sale of the jointly purchased vehicle.

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.

WARMINSTER FIRE COMPANY #1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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. Once the vehicle is sold, the relief association officials should closely monitor all sales to ensure proceeds are received and timely deposited into a relief association account.

Cause: Relief association officials did not provide a reason why they did not receive and deposit the relief association's proportional share of the proceeds from the sale of the jointly purchased vehicle.

Effect: The failure to receive and deposit the proceeds due to the relief association from the sale of a jointly purchased vehicle with the affiliated fire company places the relief association's ownership interest at greater risk. As a result, the relief association was unable to use the funds for general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$13,750 for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all future proceeds resulting from the sale of a jointly purchased vehicle are timely deposited in 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 agreed with the finding as presented at the audit exit conference and subsequent to the period under review and as a result of our audit, the affiliated fire company reimbursed the relief association \$13,750 for their pro-rata share of the proceeds from the sale of the jointly purchased vehicle on September 3, 2020.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$13,750 was received. Compliance for maintaining appropriate documentation for jointly purchased vehicles made during the next audit period will be subject to verification through our next audit.

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. Harry Dole
President

Mr. John Mahon
Vice President

Ms. Alysen Doyle
Secretary

Mr. Steven Buonomo
Treasurer

Mr. Matthew McGowan
Trustee

Mr. Daniel Dewald
Trustee

Mr. Dylan Polukis
Trustee

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

Ms. Mary K. Owens
Secretary
Warminster Township

WARMINSTER FIRE COMPANY #1 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.