

# COMPLIANCE AUDIT

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## Forks Township Volunteer Firefighters' Relief Association Northampton County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

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December 2017



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Charles R. Chapman, III, President  
Forks Township Volunteer  
Firefighters' Relief Association  
Northampton County

We have conducted a compliance audit of the Forks Township Volunteer Firefighters' 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, 2014 to December 31, 2016.

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 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.

Based on our audit procedures, we conclude that, for the period January 1, 2014 to December 31, 2016:

- The relief association took appropriate corrective action to address one of the two 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.
- Because of the significance of the matters described in the findings below and discussed later in this report, 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 – Noncompliance With Prior Audit Recommendation:  
Unauthorized Expenditure


Finding No. 2 – Inadequate Minutes Of Meetings

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

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.

November 28, 2017

  
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. Volunteer firefighters' 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Forks Township	Northampton	\$122,001	\$115,614	\$114,977
Stockertown Borough	Northampton	\$ 7,239	\$ 7,068	\$ 7,022

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:

Forks Township Volunteer Fire Department

FORKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain Surety (Fidelity) Bond Coverage

By maintaining Surety (Fidelity) bond coverage in an amount greater than the balance of the relief association's cash assets.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of the two prior audit findings. The finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Unauthorized Expenditure

Although the relief association received reimbursement of \$98,594 from the affiliated fire department for the unauthorized expenditures that were made in the prior audit period, the relief association again expended funds in the current audit period that were not authorized by Act 118 as further disclosed in Finding No. 1 of this report.

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

FORKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditure**

Condition: As disclosed in the Status of Prior Findings section of this report, although the relief association received reimbursement from the affiliated fire department for the unauthorized expenditures made during the prior audit period, the relief association again expended funds during the current audit period that were not authorized by Act 118. The relief association expended an additional \$8,499 for twenty-eight Padgenite panels that attach to the walls inside a burn tower; however, this expenditure is not authorized by Act 118. The relief association did receive a partial reimbursement of \$1,050 towards this unauthorized expenditure during the current audit period; however, there remains a balance of \$7,449 due to the relief association for this unauthorized cost.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(10) states:

The funds of any volunteer firefighters' relief association may be spent:

To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.

Costs associated with the purchase of the Padgenite panels do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the expenditure for the Padgenite panels was not authorized by Act 118.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118. 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 be reimbursed \$7,449 for the unauthorized expenditure and that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of 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 indicated they will take action to comply with the recommendation.

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.



FORKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Inadequate Minutes Of Meetings**

Condition: The relief association failed to maintain detailed minutes of meetings as required by Act 118. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period. The minutes contained approvals of annual amounts for various expenditure categories but did not contain evidence of approvals of individual expenditures.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) 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.

Cause: Relief association officials indicated they thought that an annual approval of an operation budget was sufficient for approval of expenditures.

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

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 did not agree with the finding as presented at the audit exit conference and stated: We authorize by membership vote annually to approve an operational budget with line item expenditures that will carry throughout the year; therefore, all items are approved in advance of purchase unless a mid-year budget adjustment is required, in which case it is brought to the floor for a vote. We have standing approved purchases that are routine, and annual projects that are part of this budgeting process.

Auditor's Conclusion: Annual approval of an operational budget with a general expenditure category is not sufficient to comply with Act 118 requirements regarding minutes of meetings. The relief association's minutes of meetings failed to document the financial transactions entered into by the relief association along with the membership's approval of the items purchased. Therefore, it was not possible to determine if the membership was aware of the relief association's financial transactions. At a minimum, the relief association should document in the minutes its expenditures and the membership's approval of the expenditure transactions. The finding and recommendations remain as stated. Compliance will be subject to verification through our next audit.

FORKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**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. Even though a partial listing of relief association owned equipment was provided for equipment purchased through July 2014, this listing was incomplete because it did not contain the dates of purchase and cost of equipment to accurately identify equipment owned by the relief association. Furthermore, an equipment roster was not maintained for the remainder of the period covered by the audit. As such, we were unable to determine whether all of the equipment purchased during the audit period in the amount of \$453,429 was recorded. Finally, 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.

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.

FORKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

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 did not agree with the finding as presented at the audit exit conference and stated: This is an inaccurate representation of fact. All items purchased are stored with physical copies of line item invoices effectively fully documenting all purchased equipment. Check registers in Quickbooks also contain cross-referenced payment information and details including all costs and vendor names. The same procedures for full documentation are followed for all expenditures and a full and complete accounting and effective register are contained therein.

Auditor's Conclusion: Maintenance of an inventory roster and the performance of physical inventories is a best business practice as an internal control to provide accountability and safeguarding of valuable assets. While the maintenance of invoices with equipment and cross-references in Quickbooks provide relevant payment information, these procedures would not prevent or detect theft or other loss of assets. While a partial listing of relief association owned equipment was provided for purchases made through July 2014, this listing was incomplete and equipment purchased during the audit could not be accounted for. Further, the relief association did not provide an equipment roster for equipment purchases occurring after July 2014. This weakens the relief association's accounting control over equipment purchased. Invoices for all equipment purchased during the audit period should be reviewed to ensure all relevant equipment items are recorded on the equipment roster and a physical inventory should be performed annually to verify the locations and conditions of equipment. Therefore, the finding and recommendations remain as stated. Compliance will be subject to verification through our next audit.

FORKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by Finding No. 1 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.

DRAFT

FORKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2016

Cash	\$ 186,805
Fair Value of Investments	<u>545,647</u>
Total Cash and Investments	<u><u>\$ 732,452</u></u>

FORKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 108,670
Relief benefits	43,835
Total Benefit Services	\$ 152,505
Fire Services:	
Equipment purchased	\$ 453,430
Equipment maintenance	30,066
Training expenses	29,950
Total Fire Services	\$ 513,446
Administrative Services:	
Other administrative expenses	\$ 122
Bond premiums	354
Total Administrative Services	\$ 476
Total Investments Purchased	\$ 100,000
Other Expenditures:	
Miscellaneous	\$ 10,000
Unauthorized expenditure*	8,499
Total Other Expenditures	\$ 18,499
Total Expenditures	\$ 784,926

\* As disclosed earlier in Finding No. 1 of this report, the relief association received partial reimbursement of \$1,050 towards this unauthorized expenditure during the current audit period; therefore, a balance of only \$7,449 remains due the relief association for this unauthorized cost.

FORKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Forks Township Volunteer Firefighters' Relief Association Governing Body:

**Mr. Charles R. Chapman, III**  
President

**Mr. Matthew J. Mowrey**  
Vice President

**Ms. Paige Moon**  
Secretary

**Mr. Bryan C. Weis**  
Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report:

**Mr. Robert Egolf**  
Municipal Treasurer  
Forks Township

**Ms. Anita M. Caughy**  
Secretary  
Stockertown 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).