

# COMPLIANCE AUDIT

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## Lower Saucon Township Volunteer Fireman's Relief Association Northampton County, Pennsylvania For the Period January 1, 2017 to December 31, 2019

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November 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Mr. Scott Nocek, Jr., President  
Lower Saucon Township Volunteer  
Fireman's Relief Association  
Northampton County

We have conducted a compliance audit of the Lower Saucon Township Volunteer Fireman'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, 2019.

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, 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 objective. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain an independent confirmation of the cash balance directly from the financial institution. Therefore, while the relief association provided copies of bank statements that indicated that, as of December 31, 2019, the relief association had a cash balance of \$175,880, we were not able to verify 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, 2017 to December 31, 2019, 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 – Inadequate Minutes Of Meetings

Finding No. 2 – Failure To Maintain A Complete And Accurate Equipment Roster

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.

November 16, 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>2017</u>	<u>2018</u>	<u>2019</u>
Lower Saucon Township	Northampton	\$84,998	\$77,323	\$82,750

## BACKGROUND – (Continued)

Based on the relief association's records, its total cash and investments as of December 31, 2019 were \$379,391, as illustrated below:

Cash	\$ 175,880
Fair Value of Investments	<u>203,511</u>
Total Cash and Investments	<u>\$ 379,391</u>

Based on the relief association's records, its total expenditures for the period January 1, 2017 to December 31, 2019 were \$350,972, 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>1</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	\$ 76,830
Relief benefits	<u>24,723</u>
Total Benefit Services	<u>\$ 101,553</u>
Fire Services:	
Equipment purchased	\$ 235,029
Equipment maintenance	8,967
Training expenses	<u>4,125</u>
Total Fire Services	<u>\$ 248,121</u>
Administrative Services:	
Other administrative expenses	\$ 374
Bond premiums	<u>924</u>
Total Administrative Services	<u>\$ 1,298</u>
Total Expenditures	<u>\$ 350,972</u>

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<sup>1</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 organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Lower Saucon Fire Rescue

Steel City Volunteer Fire Department

LOWER SAUCON TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – 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. Additionally, the relief association did not hold more than two meetings in any year during the current audit period. Although the relief association bylaws only require one meeting per year, it is a good business practice to hold meetings on a more regular basis, such as monthly or quarterly.

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.

The relief association's bylaws at Article IV, Section 3 states, in part:

Secretary – He/She shall keep a true, accurate, and complete written record of the proceedings of all meetings of the association. The minutes of record shall note all pertinent information and discussions entertained at all meetings.

In addition, the relief association's bylaws at Article V, Section 1 states, in part:

The regular meeting of this Association shall be held in January of each year. Special meetings may be called by the President, the Board of Control, or by not less than three (3) members from each of the member companies.

Further, it is a good business practice to hold meetings on a regular basis to facilitate timely communication of relief association business and financial transactions in a timely manner.

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. Furthermore, they did not understand the importance of having meetings on a regular basis to present the relief association's financial transactions to the membership for approval. In addition, the relief association's bylaws do not require holding more than one meeting per year.

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



LOWER SAUCON TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (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. The relief association should hold regular meetings to ensure the membership is aware of, and approves, the financial-related transactions and consider revising its bylaws to require more frequent meetings. 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 respond stating agreement or disagreement to the exit conference memorandum that was sent to officials requesting their response to the audit report findings.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

**Finding No. 2 – 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. The relief association purchased \$235,029 of equipment during the current audit period. While an equipment roster was maintained for relief association equipment purchased through April 3, 2018 and maintained at the Steel City Volunteer Fire Department, an equipment roster was not prepared for the relief association's equipment purchased and maintained at the Lower Saucon Fire Rescue. 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.

LOWER SAUCON TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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

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 did not respond stating agreement or disagreement to the exit conference memorandum that was sent to officials requesting their response to the audit report findings.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

LOWER SAUCON TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION  
OBSERVATION

**Observation – FDIC Coverage Limits Exceeded**

As disclosed in the written observation in the prior audit report, 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, 2019, the relief association's ending cash and investment balances with the financial institution amounted to \$379,391.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United State 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 Act 118 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 reasonable 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.

LOWER SAUCON TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Lower Saucon Township Volunteer Fireman's Relief Association Governing Body:

**Mr. Scott Nocek, Jr.**  
President

**Mr. Scott Krycia**  
Vice President

**Mr. Kenneth Janis**  
Secretary

**Mr. George Gress**  
Treasurer

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

**Ms. Leslie Huhn**  
Manager  
Lower Saucon Township

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).