

COMPLIANCE AUDIT

The Volunteer Fireman's Relief Association of Sellersville, Pennsylvania Bucks County For the Period January 1, 2016 to December 31, 2017

August 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Brian Long, President
The Volunteer Fireman's Relief
Association of Sellersville,
Pennsylvania
Bucks County

We have conducted a compliance audit of The Volunteer Fireman's Relief Association of Sellersville, Pennsylvania (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.

Based on our audit procedures, we conclude that, for the period January 1, 2016 to December 31, 2017, 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 – Unsecured Loan

Finding No. 2 – Untimely Deposit Of State Aid

Finding No. 3 – Inadequate Relief Association Bylaws

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.

August 23, 2018



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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2016</u>	<u>2017</u>
East Rockhill Township	Bucks	\$ 3,778	\$ 3,407
Hilltown Township	Bucks	\$ 8,481	\$ 7,863
Sellersville Borough	Bucks	\$27,860	\$24,875
West Rockhill Township	Bucks	\$19,796*	\$17,929

* The 2016 state aid allocation received from West Rockhill Township was not deposited by the relief association until January 9, 2017 as disclosed in Finding No. 2 in this report.

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:

Sellersville Fire Department

THE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF SELLERSVILLE,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unsecured Loan

Condition: On May 12, 2015, the relief association made an unsecured loan to the affiliated fire company in the amount of \$65,000 with annual payments beginning January of 2016. Originally, the relief association planned to secure the loan with the fire company building as collateral; however, after consulting with their solicitor and accountant, a decision was made to secure the loan with a fire company owned vehicle. Therefore, the relief association officials failed to revise the original loan agreement to include the appropriate security on the loan. In addition, the relief association officials did not obtain an appraisal of the vehicle to determine if there was sufficient value to secure the loan.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) requires that loans be:

. . . (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

Cause: Relief association officials indicated that they were unaware that the loan to the fire company must be secured to ensure compliance with Act 118 provisions.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk.

Recommendation: We recommend that the relief association officials and the fire company amend the written loan agreement to provide adequate security for the relief association's investment as required by Act 118 at 35 Pa.C.S. § 7416(c)(3). In addition, we recommend that the relief association officials obtain an appraisal of the vehicle to determine if there is sufficient value to secure the loan. If such actions are not taken, we recommend that the loan be immediately liquidated. 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, on August 22, 2018, the affiliated fire company paid the remaining balance of the loan in the amount of \$10,745 and the relief association deposited this amount into a relief association account.

Auditor's Conclusion: We reviewed the documentation verifying the deposit of the final loan payment from the affiliated fire company in the amount of \$10,745 into the relief association account. Compliance for securing any loans made during the next audit period will be subject to verification through our next audit.

THE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF SELLERSVILLE,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Untimely Deposit Of State Aid

Condition: The relief association did not deposit the 2016 state aid allocation it received from West Rockhill Township, in the amount of \$19,796, until January 9, 2017. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 20, 2016, who forwarded this state aid to the relief association on September 30, 2016, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: Relief association officials failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner. The relief association officials stated that it was an oversight.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely deposit of all future income received. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

THE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF SELLERSVILLE,
PENNSYLVANIA
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 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. 3 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the relief association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not require two signatures, one of whom shall be the disbursing officer, to issue a negotiable instrument.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) states, that the relief association's bylaws shall:

- (3) Require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

Cause: Relief association officials indicated that they were unaware of the mandatory bylaw provisions established by Act 118.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of 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.

THE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF SELLERSVILLE,
PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 255,680
Fair Value of Investments	109,030
Book Value of Other Investments	<u>30,788</u>
Total Cash and Investments	<u>\$ 395,498</u>

THE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF SELLERSVILLE,
PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 16,987
Death benefits	3,500
Total Benefit Services	<u>\$ 20,487</u>
Fire Services:	
Equipment purchased	\$ 95,540
Equipment maintenance	12,469
Training expenses	3,636
Fire prevention materials	1,907
Total Fire Services	<u>\$ 113,552</u>
Administrative Services:	
Other administrative expenses	\$ 1,318
Bond premiums	661
Total Administrative Services	<u>\$ 1,979</u>
Total Expenditures	<u><u>\$ 136,018</u></u>

THE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF SELLERSVILLE,
PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Volunteer Fireman's Relief Association of Sellersville, Pennsylvania Governing Body:

Mr. Brian Long
President

Mr. Joseph McDonald
Vice President

Mr. Jeffrey McDonald
Secretary

Mr. Carmen Conicelli, III
Treasurer

Mr. Thomas Loudon
Trustee

Ms. Ashley McElhare
Trustee

Mr. Will Garges, Jr.
Trustee

THE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF SELLERSVILLE,
PENNSYLVANIA
REPORT DISTRIBUTION LIST

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

Ms. Marianne K. Morano
Secretary
East Rockhill Township

Ms. Lorraine Leslie
Secretary
Hilltown Township

Mr. David J. Rivet
Secretary
Sellersville Borough

Mr. Greg Lippincott
Secretary
West Rockhill 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.