

COMPLIANCE AUDIT

The Warwick Twp. Fire Co.'s Relief Association Bucks County, Pennsylvania For the Period January 1, 2018 to December 31, 2019

January 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Kevin Murphy, President
The Warwick Twp. Fire Co.'s
Relief Association
Bucks County

We have conducted a compliance audit of The Warwick Twp. Fire Co.'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, 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.

We were not able to obtain an independent confirmation of a portion 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 \$608,330, we were not able to verify a portion of this cash balance.

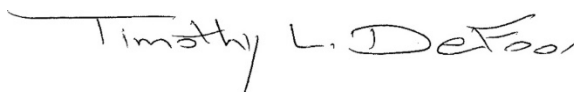
Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2018 to December 31, 2019:

- The relief association took appropriate corrective action to address the findings contained in our prior audit 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.

We have 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. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.



TIMOTHY L. DEFOOR
Auditor General

January 7, 2021

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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>
Warwick Township	Bucks	\$111,297	\$120,621

BACKGROUND – (Continued)

Based on the relief association's records, its total cash and investments as of December 31, 2019 were \$1,302,080, as illustrated below:

Cash	\$ 608,330
Book Value of Other Investments	<u>693,750</u>
Total Cash and Investments	<u>\$ 1,302,080</u>

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2019 were \$332,158, 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	\$ 65,080
Relief benefits	<u>12,495</u>
Total Benefit Services	<u>\$ 77,575</u>

Fire Services:

Equipment purchased	\$ 167,900
Equipment maintenance	18,595
Training expenses	259
Fire prevention materials	<u>2,482</u>
Total Fire Services	<u>\$ 189,236</u>

Administrative Services:

Other administrative expenses*	\$ 64,979
Bond premiums	<u>368</u>
Total Administrative Services	<u>\$ 65,347</u>

Total Expenditures	<u>\$ 332,158</u>
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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 include rental fees in the amount of \$40,430 paid by the relief association to its affiliated fire company that were inconsistent with the intent of Act 118 as disclosed in the prior audit report and discussed in detail in the Status of Prior Findings section of this report. A portion of the other administrative expenditures also include rental fees in the amount of \$20,360 paid by the relief association to its affiliated fire company that are consistent with the intent of Act 118.

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:

Warwick Fire Company No. 1

THE WARWICK TWP. FIRE CO.'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

STATUS OF PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association continues to comply with one of the two prior audit findings and recommendations, as follows:

- Rental Fees Paid For Rental Space Not Authorized Under Act 118

As disclosed in the prior audit, the relief association was to be reimbursed for the unauthorized expenditures paid for rental fees during the prior audit period through January 2019 in the amount of \$115,070. The agreement prepared on May 21, 2019 between the relief association and the affiliated fire company stated that the relief association would receive a good faith down payment and annual payments for 5 years ending in the year 2024. During the current audit period, the relief association received the good faith down payment of \$55,000 in 2019 and the first annual payment of \$15,000 was received on June 5, 2020. Continued compliance will be subject to verification through subsequent audits of the relief association.

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 Comply With Terms Of Mortgage Agreement

By amending the mortgage agreement in a manner that ensures all loaned funds, plus interest payments and any future penalties, are recouped by the relief association in accordance with Act 118.

We commend the relief association management for its efforts in complying with the findings and recommendations contained in the prior audit report. The association management should strive to remain in compliance with all applicable state laws, contracts, bylaws and administrative procedures.

THE WARWICK TWP. FIRE CO.'S RELIEF ASSOCIATION
OBSERVATION

Observation – FDIC Coverage Limits Exceeded

As disclosed in a verbal observation in the two previous audits, 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 balances with a financial institution amounted to \$471,190.

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.

THE WARWICK TWP. FIRE CO.'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Warwick Twp. Fire Co.'s Relief Association Governing Body:

Mr. Kevin Murphy
President

Mr. Ryan Butrica
Vice President

Mr. Patrick McCarty
Secretary

Mr. Michael J. Wiley
Treasurer

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

Mr. Kyle W. Seckinger
Secretary
Warwick 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.