

COMPLIANCE AUDIT

Green Lane Firemen's Relief Association of the Green Lane Fire Company of Green Lane, Pennsylvania Montgomery County For the Period January 1, 2016 to December 31, 2017

October 2018



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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Scott M. Wolfgang, President
Green Lane Firemen's Relief Association
of the Green Lane Fire Company of
Green Lane, Pennsylvania
Montgomery County

We have conducted a compliance audit of the Green Lane Firemen's Relief Association of the Green Lane Fire Company of Green Lane, 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 objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding 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, 2016 to December 31, 2017:

- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding 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 Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Untimely Receipt And Deposit Of State Aid

Finding No. 3 – Failure To Secure Ownership Interest In Purchased Equipment

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.

September 27, 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>
Green Lane Borough	Montgomery	\$ 3,714	\$ 3,333*
Marlborough Township	Montgomery	\$24,963	\$23,195

* Due to late filing of Certification Form AG 385, the 2017 state aid allocation was not received and distributed to the relief association by Green Lane Borough in accordance with Act 205. Green Lane Borough failed to complete and return reporting Certification Form AG 385, for the year 2017 by the March 31 annual filing date in accordance with Act 205 to ensure proper receipt and eventual distribution of state aid to the relief association. Although Green Lane Borough did file the Certification Form AG 385 in 2017, the relief association did not receive their foreign fire insurance premium tax state aid allocation, per Section 706(b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205) until February 1, 2018. The 2017 state aid allocation received from Green Lane Borough was not deposited by the relief association until March 9, 2018 as disclosed in Finding No. 2 in this report.

In addition, Green Lane Borough is still required to submit a 2017 Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this Department and should do so as soon as possible.

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:

Green Lane Fire Company

GREEN LANE FIREMEN'S RELIEF ASSOCIATION OF THE GREEN LANE FIRE
COMPANY OF GREEN LANE, PENNSYLVANIA
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with the following prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations 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.

GREEN LANE FIREMEN'S RELIEF ASSOCIATION OF THE GREEN LANE FIRE
COMPANY OF GREEN LANE, PENNSYLVANIA
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. Specifically, the relief association purchased \$15,622 of radios from Montgomery County during the current audit period, and there was no equipment roster created or maintained for these purchases. 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.

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 requiring the maintenance of a cumulative equipment roster 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.

GREEN LANE FIREMEN'S RELIEF ASSOCIATION OF THE GREEN LANE FIRE
COMPANY OF GREEN LANE, PENNSYLVANIA
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, as a result of our audit, on September 27, 2018, the relief association provided an equipment roster showing the \$15,622 of radios purchased in 2016.

Auditor's Conclusion: We reviewed the documentation verifying the equipment roster now lists the radios purchased in 2016. Compliance for equipment purchases made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Untimely Receipt And Deposit Of State Aid

Condition: As disclosed on the Background page of this report, Green Lane Borough failed to complete and return reporting Certification Form AG 385, for the year 2017 by the March 31 annual filing date in accordance with Act 205 to ensure proper receipt and eventual distribution of state aid to the relief association. Due to the borough's late filing of Certification Form AG 385, the 2017 state aid allocation, in the amount of \$3,333, was not received and distributed to the relief association by Green Lane Borough, until February 1, 2018. Since there was no documentation indicating that the relief association attempted to retrieve the funds, the relief association did not ensure the funds were received and deposited timely. Additionally, upon receipt of the state aid allocation, the relief association did not deposit the funds timely into a relief association account until March 9, 2018.

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.

GREEN LANE FIREMEN'S RELIEF ASSOCIATION OF THE GREEN LANE FIRE
COMPANY OF GREEN LANE, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, prudent business practices dictate 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 to ensure that all income due the relief association was received, recorded and deposited into a relief association account in a timely manner.

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds 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 receipt and deposit of all income received. 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.

Finding No. 3 – Failure To Secure Ownership Interest In Purchased Equipment

Condition: On July 1, 2016, the relief association expended \$15,622 on fire company equipment (radios) purchased from Montgomery County without properly securing its ownership interest.

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.

GREEN LANE FIREMEN'S RELIEF ASSOCIATION OF THE GREEN LANE FIRE
COMPANY OF GREEN LANE, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Prudent business practice dictates that the relief association should secure its ownership interest in the radios purchased by the relief association by executing a formal written agreement that enumerates the relief association's share of the cost of the equipment. Such agreement shall specify that the relief association shall receive the proceeds upon sale of the radios, in the event the radios are ever sold.

Cause: Relief association officials failed to adequately secure its ownership interest in the equipment.

Effect: The failure to adequately secure the ownership interest in the equipment places the relief association's ownership interest at greater risk.

Recommendation: We recommend that the relief association officials execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the equipment is ever sold or that the fire company relinquish their ownership interest in the equipment. If such action is not taken, we recommend that the relief association be reimbursed \$15,622. 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, the affiliated fire company provided an agreement between the relief association and the fire company assigning all ownership rights for the radios purchased to the relief association, on September 24, 2018.

Auditor's Conclusion: We reviewed the documentation verifying an ownership agreement between the relief association and the affiliated fire company assigning all ownership rights for the radios purchased to the relief association. Compliance for ownership agreements related to equipment purchases made during the next audit period will be subject to verification through our next audit.

GREEN LANE FIREMEN'S RELIEF ASSOCIATION OF THE GREEN LANE FIRE
COMPANY OF GREEN LANE
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2017

Cash	<u>\$ 61,559</u>
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GREEN LANE FIREMEN'S RELIEF ASSOCIATION OF THE GREEN LANE FIRE
COMPANY OF GREEN LANE
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:

Insurance premiums	\$ 12,360
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Fire Services:

Equipment purchased	\$ 88,357
Equipment maintenance	545
Training expenses	1,859
Total Fire Services	\$ 90,761

Administrative Services:

Other administrative expenses	\$ 621
Bond premiums	272
Total Administrative Services	\$ 893

Total Expenditures	\$ 104,014
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GREEN LANE FIREMEN'S RELIEF ASSOCIATION OF THE GREEN LANE FIRE
COMPANY OF GREEN LANE, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Green Lane Firemen's Relief Association of the Green Lane Fire Company of Green Lane,
Pennsylvania Governing Body:

Mr. Scott M. Wolfgang
President

Mr. Tom Huguenin
Vice President

Mr. John M. Balmer
Secretary

Mr. Edwin Nowakowski
Treasurer

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

Ms. Marybeth Cody
Secretary
Marlborough Township

Ms. Melissa Baine
Secretary
Green Lane Borough

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.