

COMPLIANCE AUDIT

The Fireman's Relief Association of Towamencin Township, Pa. Montgomery County, Pennsylvania 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



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
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www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Andrew Gerth, President
The Fireman's Relief Association of
Towamencin Township, Pa.
Montgomery County

We have conducted a compliance audit of The Fireman's Relief Association of Towamencin Township, Pa. (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 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, 2016 to December 31, 2017:

- The relief association did not take appropriate corrective action to address the findings contained in our prior audit report, as detailed 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 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Membership Roster

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


We have also issued the observation below as detailed in the Observation section of this report.

Observation – FDIC Coverage Limits Exceeded

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.

October 5, 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 municipality:

| <u>Municipality</u> | <u>County</u> | <u>2016</u> | <u>2017</u> |
|---------------------|---------------|-------------|-------------|
| Towamencin Township | Montgomery | \$137,088 | \$125,008 |

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:

Towamencin Volunteer Fire Company

THE FIREMAN'S RELIEF ASSOCIATION OF TOWAMENCIN TOWNSHIP, PA.
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with the following prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure To Maintain A Complete And Accurate Equipment Roster
- Failure To Maintain A Complete And Accurate Membership Roster

We are concerned by the relief association's failure to correct those previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

THE FIREMAN'S RELIEF ASSOCIATION OF TOWAMENCIN TOWNSHIP, PA.
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. Although a listing of relief association owned equipment was provided during the current audit period, it was incomplete because it did not contain the names of suppliers (vendors), dates of purchase, cost of equipment and serial numbers to accurately identify all equipment owned by the relief association. As such, it was impossible to determine if all equipment purchased during the audit period in the amount of \$334,536 was recorded. 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.

THE FIREMAN'S RELIEF ASSOCIATION OF TOWAMENCIN TOWNSHIP, PA.
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. 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members. Although a listing of members was provided, it was incomplete because it did not contain addresses for all members, dates of membership, position and rank of members, status of members, and date of separation as required by the relief association's bylaws.

A similar condition was noted in our prior audit report.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members' mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

THE FIREMAN'S RELIEF ASSOCIATION OF TOWAMENCIN TOWNSHIP, PA.
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, the relief association's bylaws at Article III, Section 6 states, in part:

It shall be the duty of the Board of Trustees to have in their charge a complete and up to date roster of all members for the fire company/relief association. To include: name, address, phone number, date joined, position and rank, status i.e. active-inactive, and date of separation.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to maintain a comprehensive roster of relief association members.

Effect: The continued failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We again recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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

Condition: During the current audit period, the relief association expended a total of \$73,200 in two annual payments of \$36,600 on a fire company obligation to their local municipality for the purpose of purchasing radios in a countywide group purchase. However, the relief association did so without properly securing their ownership interest in the radios.

THE FIREMAN'S RELIEF ASSOCIATION OF TOWAMENCIN TOWNSHIP, PA.
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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.

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

Cause: Relief association officials failed to adequately secure its proportional ownership interest in the radios for which the relief association is making the payments.

Effect: The failure to adequately secure the ownership interest in the radios places the relief association's ownership interest at greater risk. 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 officials execute a formal written agreement with the fire company that enumerates the relief association's ownership interest in the radios as well as stipulating that the sales proceeds shall revert to the relief association in the event the radios are ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$73,200. 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.

THE FIREMAN'S RELIEF ASSOCIATION OF TOWAMENCIN TOWNSHIP, PA.
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, 2017, the relief association's ending cash balance with the financial institution amounted to \$711,526.

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 FIREMAN'S RELIEF ASSOCIATION OF TOWAMENCIN TOWNSHIP, PA.
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 3 contained in this audit report 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.

THE FIREMAN'S RELIEF ASSOCIATION OF TOWAMENCIN TOWNSHIP, PA.
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2017

| | |
|------|-------------------|
| Cash | <u>\$ 711,526</u> |
|------|-------------------|

THE FIREMAN'S RELIEF ASSOCIATION OF TOWAMENCIN TOWNSHIP, PA.
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

| | |
|---------------------------------|------------|
| Benefit Services: | |
| Insurance premiums | \$ 141,258 |
| Relief benefits | 510 |
| Tokens of sympathy and goodwill | 624 |
| Total Benefit Services | \$ 142,392 |
| | |
| Fire Services: | |
| Equipment purchased | \$ 334,536 |
| Equipment maintenance | 35,810 |
| Training expenses | 21,404 |
| Fire prevention materials | 1,240 |
| Total Fire Services | \$ 392,990 |
| | |
| Administrative Services: | |
| Other administrative expenses | \$ 1,010 |
| Bond premiums | 736 |
| Total Administrative Services | \$ 1,746 |
| | |
| Total Expenditures | \$ 537,128 |

THE FIREMAN'S RELIEF ASSOCIATION OF TOWAMENCIN TOWNSHIP, PA.
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Fireman's Relief Association of Towamencin Township, Pa. Governing Body:

Mr. Andrew Gerth
President

Mr. Erich Greiner
Vice President

Ms. Amanda Palo
Secretary

Mr. Chris Doerr
Treasurer

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

Mr. James Sinz
Secretary
Towamencin 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.