

COMPLIANCE AUDIT

Red Hill Fire Company Volunteer Firemen's Relief Association Montgomery County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

February 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Harry Gillmer, President
Red Hill Fire Company Volunteer Firemen's Relief Association
Montgomery County

We have conducted a compliance audit of the Red Hill Fire Company Volunteer Firemen'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, 2012 to December 31, 2014.

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 received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures.

Our audit was limited to the areas related to the objectives identified above.

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 copies of canceled or imaged checks from the relief association. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

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, 2012 to December 31, 2014:

- The relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- The relief association, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures, except as noted in the findings listed below and discussed later in this report.

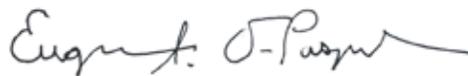
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure
To Receive Proceeds From Equipment Sold

Finding No. 2 – Unauthorized Expenditure

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 response has 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.

February 11, 2016



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. The relief association's bylaws define the specific operational procedures by which the relief association conducts 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 the relief association 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>2012</u>	<u>2013</u>	<u>2014</u>
Red Hill Borough	Montgomery	\$14,881	\$16,912	\$15,963
Upper Hanover Township	Montgomery	\$18,187	\$20,404	\$19,430

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:

Red Hill Fire Company

RED HILL FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

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 Maintain Minutes Of Meetings

By maintaining minutes of all relief association meetings held during the period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure To Receive Proceeds From Equipment Sold

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.

RED HILL FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Receive Proceeds From Equipment Sold

Condition: As disclosed in the prior audit report, the relief association did not receive its “pro rata share” of the proceeds resulting from the sale of three pieces of equipment jointly owned with the fire company that occurred during the prior audit period. Although the relief association had entered into three separate joint purchase agreements previously on May 9, 1998; December 9, 1998; and October 25, 2000, respectively, with the affiliated fire company and contributed a total of \$21,321 towards the cost of safeguard equipment for Engine 71 which was later sold on March 31, 2010, for \$22,500, Tanker 71 which was sold for \$10,000 on April 7, 2010, and Rescue 71 which was traded in at a value of \$15,000 on June 25, 2012, respectively, the relief association did not receive its “pro rata share” of the total proceeds which amounted to \$47,500 from these transactions because the agreements did not specify an exact percentage of the relief association’s ownership interest. However, as also disclosed in the prior audit report, the relief association and the fire company agreed to “a pro rata share” for the relief association of 10 percent ownership in the vehicles or \$4,750. However, during the current audit period, the relief association had still not received any proceeds from this agreement.

Criteria: Prudent business practice dictates that the relief association should ensure the relief association’s ownership interest in all jointly purchased equipment is clearly defined in all joint purchase agreements and that all proceeds from the sale of jointly owned equipment is timely collected and deposited into a relief association owned account.

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to ensure that its share of the proceeds from the prior sales of the jointly owned equipment were received and deposited into a relief association account.

Effect: The continued failure to receive and deposit the proceeds from the sale of jointly owned equipment in a timely manner can lead to a greater risk that funds could be lost or misappropriated. Furthermore, as a result of the proceeds from the sale of jointly owned equipment not being collected and deposited into a relief association account, the relief association was unable to use the funds to purchase replacement equipment, for general operating expenses, or for investment purposes.

Recommendation: We again recommend that the relief association seek reimbursement amounting to \$4,750 from the affiliated fire company, which represents 10 percent of the total proceeds received from the prior sales of the jointly owned equipment previously agreed upon by the two parties. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

RED HILL FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and as a result of our audit, subsequent to the audit period, on January 22, 2016, the relief association received reimbursement of \$4,750 from the affiliated fire company.

Auditor's Conclusion: It appears that the relief association has complied with our finding recommendation. Compliance will be subject to verification through our next audit.

Finding No. 2 – Unauthorized Expenditure

Condition: During the current audit period, the relief association expended \$2,965 towards the full cost of On-spot chains and maintenance for a vehicle that the relief association maintains a 50 percent joint ownership interest with the affiliated fire company. Although this expenditure is considered authorized by Act 118, since the relief association only owns a 50 percent ownership interest in this vehicle, the relief association is only responsible for 50 percent of the related expenses; therefore, \$1,483 is considered an unauthorized expenditure under the act.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(11) states:

The funds of any volunteer firefighters' relief association may be spent:

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

Costs associated with paying 100 percent of the expenses on a vehicle in which the relief association maintains a 50 percent ownership interest does not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, 50 percent of this disbursement is not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the expenditure was not authorized by Act 118.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

RED HILL FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association be reimbursed \$1,483 for the unauthorized expenditure and that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of future expenditures. 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, subsequent to the audit period on January 22, 2016, the relief association received reimbursement amounting to \$1,483 from the affiliated fire company.

Auditor's Conclusion: It appears that the relief association has complied with our finding recommendation. Compliance will be subject to verification through our next audit.

RED HILL FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2014

Cash Balance:	\$ 29,516
Expenditures:	
Benefit Services:	
Insurance premiums	<u>\$ 9,933</u>
Fire Services:	
Equipment purchased	\$ 56,325
Equipment maintenance	10,751
Training expenses	<u>4,513</u>
Total Fire Services	<u>\$ 71,589</u>
Administrative Services:	
Other administrative expenses	\$ 6,305
Bond premiums	<u>286</u>
Total Administrative Services	<u>\$ 6,591</u>
Other Expenditures:	
Unauthorized expenditure	<u>\$ 1,483</u>

RED HILL FIRE COMPANY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Red Hill Fire Company Volunteer Firemen's Relief Association Governing Body:

Mr. Harry Gillmer	President
Ms. Diana Gedman	Vice President
Mr. Geoffrey Alderfer	Secretary
Mr. Blaine Haney	Treasurer

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

Ms. Darlene S. Stoudt Red Hill Borough	Municipal Secretary
Mr. Stanley W. Seitzinger, Jr. Upper Hanover Township	Township Manager

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.