

COMPLIANCE AUDIT

Relief Association of the Jefferson Fire Co. #1 Montgomery County, Pennsylvania For the Period January 1, 2019, to December 31, 2022

December 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Michael J. Valyo, President
Relief Association of the Jefferson
Fire Co. #1
Montgomery County

We have conducted a compliance audit of the Relief Association of the Jefferson Fire Co. #1 (relief association) for the period January 1, 2019, to December 31, 2022. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

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.

Based on our audit procedures, we conclude that, for the period January 1, 2019, to December 31, 2022:

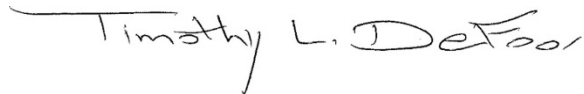
- The relief association took appropriate corrective action to address one of the three findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below, and discussed in the Status of Prior Findings section of this report.
- The relief association, in all significant respects, 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 –
Unauthorized Expenditures

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

Finding No. 3 – Undocumented Expenditures

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.



Timothy L. DeFoor
Auditor General
December 7, 2023

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code¹, and the Volunteer Firefighters' Relief Association Act² ("VFRA Act"), 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 Law³ (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.

The VFRA Act 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, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, 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 relief association officers therefore have a responsibility to the public to conduct the relief association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all relief association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the relief 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.

¹ 72 P.S. § 403 (as last amended by Act 44 of 2017).

² 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

³ 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipality:

| <u>Municipality</u> | <u>County</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> |
|------------------------|---------------|-------------|-------------|-------------|-------------|
| West Norriton Township | Montgomery | \$106,247 | \$106,597 | \$95,876 | \$119,074 |

Based on the relief association’s records, its total cash and investments as of December 31, 2022, were \$1,108,724, as illustrated below:

| | |
|----------------------------|----------------------------|
| Cash | \$ 366,689 |
| Fair Value of Investments | <u>742,035</u> |
| Total Cash and Investments | <u><u>\$ 1,108,724</u></u> |

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2022, were \$804,309 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.⁴ **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 | \$ | 124,208 |
| Death benefits | | 62,000 |
| Relief benefits | | 321 |
| Tokens of sympathy and goodwill | | 426 |
| Total Benefit Services | \$ | <u>186,955</u> |

Fire Services:

| | | |
|---------------------------|----|----------------|
| Equipment purchased | \$ | 452,192 |
| Equipment maintenance | | 96,875 |
| Training expenses | | 25,292 |
| Fire prevention materials | | 5,307 |
| Total Fire Services | \$ | <u>579,666</u> |

Administrative Services:

| | | |
|---------------------------------|----|---------------|
| Bond premiums | \$ | 1,492 |
| Officer compensation | | 4,787 |
| Other administrative expenses * | | 29,076 |
| Total Administrative Services | \$ | <u>35,355</u> |

Other Expenditures:

| | | |
|---|----|--------------|
| Undocumented expenditures – See Finding No. 3 | \$ | 950 |
| Unauthorized expenditures – See Finding No. 1 | | 1,383 |
| Total Other Expenditures | \$ | <u>2,333</u> |

Total Expenditures \$ 804,309

* A majority of the other administrative expenses for 2019 – 2022 represents monthly internet services totaling \$9,902 and accounting services, finalizing records, and preparation of 990 EZ forms in the amount of \$16,365.

⁴ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

BACKGROUND – (Continued)

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:

Jefferson Fire Company No. 1

RELIEF ASSOCIATION OF THE JEFFERSON FIRE CO. #1
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with one of the three prior audit findings and recommendations, as follows:

- Failure To Define Discretionary Benefits

By amending the relief association's bylaws to reflect the amount of discretionary benefits to be paid.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Unauthorized Expenditures

Although the relief association received partial reimbursement of \$10,400 from the affiliated fire company for the unauthorized expenditures that were made in the prior audit period, the relief association again expended funds for unauthorized expenditures in the current audit period as further disclosed in Finding No. 1 of this report.

- Failure To Maintain A Complete And Accurate Equipment Roster

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

RELIEF ASSOCIATION OF THE JEFFERSON FIRE CO. #1
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by the VFRA Act:

| <u>Date</u> | <u>Check No.</u> | <u>Description</u> | <u>Amount</u> |
|-------------|------------------|--|-----------------|
| 08/28/2019 | 3560 | Food vendor - food while in stand-by service | \$ 93 |
| 02/10/2021 | 3706 | Repair to affiliated fire company vehicle | 1,165 |
| 08/18/2022 | 3853 | Repair to affiliated fire company vehicle | 125 |
| Total | | | <u>\$ 1,383</u> |

A similar condition was noted in our prior audit report.

Criteria: Section 7416(f) of the VFRA Act states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

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

In addition, Section 7418(b) of the VFRA Act states:

- (b) Findings -- If the Auditor General finds that money received by a volunteer firefighters’ relief association has been expended for a purpose other than one authorized by this subchapter, the commissioner, upon receiving notice of the finding from the auditor general, shall decline to approve payment to the volunteer firefighters’ relief association until the improperly expended amount has been reimbursed to the relief association fund.

RELIEF ASSOCIATION OF THE JEFFERSON FIRE CO. #1
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Costs associated with the maintenance on a fire company owned vehicle and purchase of food does not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

Cause: Relief association officials indicated that there was a misunderstanding of the rules.

Effect: As a result of these improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by the VFRA Act. In addition, because of stipulations within the VFRA Act, failure to obtain reimbursement of the improperly expended funds will result in a withholding of future state aid fund disbursements until the improperly expended fire relief association monies identified in the finding have been reimbursed to the relief association.

Recommendation: We recommend that the relief association be reimbursed \$1,383 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of the VFRA Act to aid them in determining the propriety of future expenditures. All supporting documentation verifying the receipt of reimbursement for the unauthorized expenditure should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 316-E Finance Building, Harrisburg, PA 17120. 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 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, this listing was incomplete. Specifically, the relief association purchased \$452,192 of equipment 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.

RELIEF ASSOCIATION OF THE JEFFERSON FIRE CO. #1
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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: Relief association officials indicated relief committee members didn't understand the equipment log-in system.

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.

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 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.

RELIEF ASSOCIATION OF THE JEFFERSON FIRE CO. #1
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Undocumented Expenditures

Condition: As cited as a verbal observation in our prior audit, the relief association officials failed to provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the \$348 of undocumented expenditures. The relief association did not provide adequate supporting documentation or reimbursement for those expenditures during the current audit period.

During the current audit period, check #3752 was issued in the amount of \$2,654 for multiple credit card charges. The relief association provided documentation accounting for \$374, and the fire company provided reimbursement of \$1,329. With amounts rounded to the nearest dollar, \$950 remains undocumented for the current audit period.

The total amount remaining undocumented is listed below:

| <u>Date</u> | <u>Check No.</u> | <u>Payee Description</u> | <u>Amount</u> |
|-------------|------------------|--------------------------|-----------------|
| 11/24/17 | 3349 | Card services | \$ 200 |
| 02/23/18 | 3377 | Card services | 148 |
| 08/31/21 | 3752 | Card services | 950 |
| | | Total | <u>\$ 1,298</u> |

Criteria: Section 7418(a) of the VFRA Act 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 supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials indicated the discrepancy was caused by misplaced documents.

RELIEF ASSOCIATION OF THE JEFFERSON FIRE CO. #1
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of the VFRA Act. In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$1,298 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all 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 indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

RELIEF ASSOCIATION OF THE JEFFERSON FIRE CO. #1
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Relief Association of the Jefferson Fire Co. #1 Governing Body:

Mr. Michael J. Valyo
President

Mr. Earl D. Benz
Vice President

Mrs. Donna L. Benz
Secretary

Ms. Kathi Monastero
Treasurer

Ms. Taylor R. Knauer
Member at Large

Mr. Joseph Coogan
Director

Mr. Michael Deangelis
Director

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

Mr. Jason M. Bobst
Secretary
West Norriton Township

RELIEF ASSOCIATION OF THE JEFFERSON FIRE CO. #1
REPORT DISTRIBUTION LIST

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.