

COMPLIANCE AUDIT

“Fireman’s Relief Association of Jenkintown”, Jenkintown Montgomery County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

August 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. James Oyer, President
“Fireman’s Relief Association of Jenkintown”,
Jenkintown, Montgomery County, Pennsylvania

We have conducted a compliance audit of the “Fireman’s Relief Association of Jenkintown”, Jenkintown, Montgomery County, 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, 2013 to December 31, 2015.

The objective of the audit was 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 objective 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 objective. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain independent confirmation of a portion of the investment balance directly from the financial institution. Therefore, while the relief association provided copies of investment statements that indicated that, as of December 31, 2015, the relief association had an investment balance of \$3,924,114, we were not able to verify a portion of this investment balance.

We were also 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 matters described in the preceding paragraphs, for the period January 1, 2013 to December 31, 2015, 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 – Inadequate Administration Of Mortgage Investments

Finding No. 2 – Undocumented And 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 responses has/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.

July 29, 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Jenkintown Borough	Montgomery	\$ 40,173	\$ 37,580	\$ 35,560

The volunteer firefighters' relief association and the affiliated fire service organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Independence Fire Company No. 2

Pioneer Fire Company No. 1

FIREMAN'S RELIEF ASSOCIATION OF JENKINTOWN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Administration Of Mortgage Investments

Condition: The relief association invests some of its funds through mortgages granted to relief association members. During the audit period, two mortgages were found to be delinquent for several months. In addition, relief association officials could not provide documentation of the relief association's first lien position or the appraised value of the properties; therefore, these mortgages may also not be adequately secured as required by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(1) states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

- (1) In any form of investment named in 20 Pa.C.S. Ch. 73 (relating to municipalities investments). First mortgages insuring repayment of loans by relief associations shall provide for a minimum interest payment of 3% and not exceed 80% of the appraised value of real property covered by the mortgage.

Prudent business practice dictates that in order to provide adequate protection for this type of investment, the relief association and the volunteer firefighter should enter into a formal written mortgage agreement which includes designation of the relief association as holder of first-lien position of the property.

Cause: The relief association indicated that personal hardship was the reason for both mortgagee's balances becoming delinquent. For one of the mortgages, the account had been delinquent for several months; and although the relief association attempted several times to pursue collection of the outstanding payments, the relief association was unsuccessful in its attempts.

Effect: Outstanding balances place these investments at greater risk and delinquent payments increases the likelihood that they will become uncollectible. Relief association officials have worked diligently to resolve these matters and both properties are in the process of being sold.

Recommendation: We recommend that the relief association officials continue to pursue this matter to resolution. In addition, the relief association should also consider instituting mortgage insurance to adequately insure outstanding mortgage balances. 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.

FIREMAN'S RELIEF ASSOCIATION OF JENKINTOWN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented And Unauthorized Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for an expenditure amounting to \$1,500 made to a vendor on March 11, 2015. In addition, the relief association made an additional payment for \$1,345 to the same vendor on March 12, 2015. However, both of these payments were made in error and the relief association was reimbursed for the second payment only, amounting to \$1,345, which was appropriately deposited into the relief association's account on August 24, 2015. However, while documentation was provided supporting the second payment, both expenditures were payable for the same event, a celebratory dinner in honor of a member of the relief association, which is considered unauthorized according to Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) 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.

Costs associated with a dinner to honor a relief association member do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Per discussion with the Treasurer of the relief association, these expenditures were costs incurred by the affiliated fire company but were inadvertently paid out of relief association funds. The relief association failed to identify the error in a timely manner.

Effect: Lack of supporting documentation for all expenditures made it impossible for the relief association to monitor and ensure that all expenditures were made in accordance with Act 118. In addition, the failure to maintain adequate supporting documentation for all relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated. Finally, as a result of this erroneous payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

FIREMAN'S RELIEF ASSOCIATION OF JENKINTOWN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - (Continued):

Recommendation: We recommend that the relief association be reimbursed \$1,500 for the undocumented and unauthorized expenditure. We also recommend that relief association officials maintain supporting documentation and monitor such documentation to ensure the propriety of all future expenditures of 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: Compliance will be subject to verification through our next audit.

FIREMAN'S RELIEF ASSOCIATION OF JENKINTOWN
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2015

Cash	\$ 83,158
Fair Value of Investments	3,924,111
Book Value of Other Investments	<u>1,097,634</u>
Total Cash and Investments	<u>\$ 5,104,903</u>

FIREMAN'S RELIEF ASSOCIATION OF JENKINTOWN
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:

Insurance premiums	\$ 290,291
Death benefits	10,500
Relief benefits	55,357
Tokens of sympathy and goodwill	3,554
Total Benefit Services	<u>\$ 359,702</u>

Fire Services:

Equipment purchased	\$ 43,243
Equipment maintenance	21,114
Training expenses	14,616
Fire prevention materials	1,978
Total Fire Services	<u>\$ 80,951</u>

Administrative Services:

Officer compensation	\$ 5,100
Other administrative expenses	7,302
Bond premiums	1,764
Total Administrative Services	<u>\$ 14,166</u>

Total Investments Purchased	<u>\$ 135,010</u>
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Total Expenditures	<u><u>\$ 589,829</u></u>
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FIREMAN'S RELIEF ASSOCIATION OF JENKINTOWN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Fireman's Relief Association of Jenkintown Governing Body:

Mr. James Oyer
President

Mr. Dennis Cline
Vice President

Ms. Pamela Lynch
Secretary

Mr. Gary Hutnick
Treasurer

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

Mr. George K. Locke
Secretary
Jenkintown 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.