

# COMPLIANCE AUDIT

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## Lower Frederick Fire Company Relief Association of the Township of Lower Frederick, Montgomery County, Pennsylvania

For the Period  
January 1, 2013 to December 31, 2015

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September 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Kris Alexander, President  
Lower Frederick Fire Company Relief Association of the Township of Lower Frederick,  
Montgomery County, Pennsylvania

We have conducted a compliance audit of the Lower Frederick Fire Company Relief Association of the Township of Lower Frederick, 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 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 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.

Based on our audit procedures, we conclude that, for the period January 1, 2013 to December 31, 2015:

- The relief association took appropriate corrective action to address the finding contained in our prior audit 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 – Untimely Deposit Of State Aid

Finding No. 2 – Inadequate Financial Record-Keeping System

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.

September 28, 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>
Lower Frederick Township	Montgomery	\$39,295*	\$37,120	\$35,445

\* The 2013 state aid allocation received from Lower Frederick Township was not deposited by the relief association until March 24, 2014 as disclosed in Finding No. 1 contained in this report.

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:

Lower Frederick Fire Company

LOWER FREDERICK FIRE COMPANY RELIEF ASSOCIATION OF THE TOWNSHIP OF  
LOWER FREDERICK, MONTGOMERY COUNTY, PENNSYLVANIA  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Insufficient Surety (Fidelity) Bond Coverage

By increasing the Surety (Fidelity) bond coverage to an amount greater than the balance of the relief association's cash assets.

LOWER FREDERICK FIRE COMPANY RELIEF ASSOCIATION OF THE TOWNSHIP OF  
LOWER FREDERICK, MONTGOMERY COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Untimely Deposit Of State Aid**

Condition: The relief association did not deposit the 2013 state aid allocation it received from Lower Frederick Township, in the amount of \$39,295, into a relief association account until March 24, 2014. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 23, 2013, who forwarded this state aid to the volunteer firefighters' relief association on September 26, 2013, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). However, upon receipt of the state aid allocation, the relief association inadvertently deposited these funds into a fire company account instead of a relief association account.

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.

Furthermore, prudent business practice dictates that, upon receipt of its state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

Cause: Relief association officials failed to establish internal control procedures to ensure that all state aid received is recorded and deposited timely into an appropriate relief association account.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that relief association officials establish adequate accounting and internal control procedures to ensure that all future state aid is received in a timely manner and appropriately deposited into a relief association account. 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.



LOWER FREDERICK FIRE COMPANY RELIEF ASSOCIATION OF THE TOWNSHIP OF  
LOWER FREDERICK, MONTGOMERY COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Inadequate Financial Record-Keeping System**

Condition: The relief association’s financial record-keeping system did not establish adequate accounting procedures to allow the membership to effectively monitor the relief association’s financial operations and to provide effective control over cash receipts, disbursements, and assets. The following are the noted deficiencies:

- A journal was not maintained to record the receipts and disbursements of the relief association for 2013 and 2015.
- The relief association’s sales tax exemption number was not provided to all vendors resulting in \$105 in sales tax paid by the relief association.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states:

A volunteer firefighters’ relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, Act 118 at 35 Pa.C.S. 7415(e) states:

A volunteer firefighters’ relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

Moreover, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials indicated that they were unaware of their various record-keeping responsibilities including the necessity to provide their state sales tax exemption number to all vendors from which the relief association purchases equipment and services.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association’s financial operations. In addition, as a result of the relief association’s failure to provide its sales tax exemption number to all vendors, the relief association was required to pay Pennsylvania sales tax on some of its purchases, which reduced the funds otherwise available for general operating expenditures and for investment purposes.

LOWER FREDERICK FIRE COMPANY RELIEF ASSOCIATION OF THE TOWNSHIP OF  
LOWER FREDERICK, MONTGOMERY COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued):**

Recommendation: We recommend that the relief association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations and provides effective control over cash receipts, disbursements, and assets and includes providing their state sales tax exemption number to all vendors from which the relief association purchases equipment and services. 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

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

LOWER FREDERICK FIRE COMPANY RELIEF ASSOCIATION OF THE TOWNSHIP OF  
LOWER FREDERICK, MONTGOMERY COUNTY, PENNSYLVANIA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH BALANCE  
AS OF DECEMBER 31, 2015

Cash	<u>\$ 51,775</u>
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LOWER FREDERICK FIRE COMPANY RELIEF ASSOCIATION OF THE TOWNSHIP OF  
 LOWER FREDERICK, MONTGOMERY COUNTY, PENNSYLVANIA  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:	
Insurance premiums	\$ 15,711
Fire Services:	
Equipment purchased	\$ 137,315
Equipment maintenance	10,510
Training expenses	13,621
Fire prevention materials	3,687
Total Fire Services	\$ 165,133
Administrative Services:	
Other administrative expenses	1,948
Bond premiums	500
Total Administrative Services	\$ 2,448
Total Expenditures:	\$ 183,292

LOWER FREDERICK FIRE COMPANY RELIEF ASSOCIATION OF THE TOWNSHIP OF  
LOWER FREDERICK, MONTGOMERY COUNTY, PENNSYLVANIA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Lower Frederick Fire Company Relief Association of the Township of Lower Frederick,  
Montgomery County, Pennsylvania Governing Body:

**Mr. Kris Alexander**  
President

**Mr. Thomas Gamon, V**  
Vice President

**Mr. Charles Jack**  
Secretary

**Mr. Rodger Lyle**  
Treasurer

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

**Ms. Tamara Twardowski**  
Secretary  
Lower Frederick Township

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).