



**FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP
RELIEF ASSOCIATION**

MONTGOMERY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2011

RELEASED MARCH 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DePASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Mike Shinton, President
MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Montgomery County

We have conducted a compliance audit of the Montgomery Township Volunteer Firefighters' 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, 2009 to December 31, 2011.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the volunteer firefighters' 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.

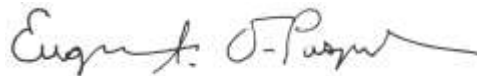
Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Montgomery Township Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Montgomery Township Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Montgomery Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives.

The results of our audit, for the period January 1, 2009 to December 31, 2011, found the Montgomery Township Volunteer Firefighters' Relief Association took appropriate corrective action to address the findings contained in our prior audit report and, 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 finding listed below and discussed later in this report. The results of our tests also indicated the Montgomery Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$265,049 and an investment balance with a fair value of \$62,774.

Finding – Undocumented Expenditure

The contents of this report were discussed with the management of the Montgomery Township Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

October 23, 2013



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

Background	1
Status of Prior Findings	3
Finding and Recommendation:	
Finding – Undocumented Expenditure	4
Accompanying Expenditure Information	6
Report Distribution List	8

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 Fire Department of Montgomery Township Relief Association, herein referred to as Montgomery Township Volunteer Firefighters' 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 the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' 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 volunteer firefighters' 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, which is or are recognized as providing the service to the municipality. The Montgomery Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Montgomery Township	Montgomery	\$229,395	\$255,536	\$414,125

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Montgomery Township Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Fire Department of Montgomery Township

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Montgomery Township Volunteer Firefighters' Relief Association has complied with one of the two prior audit findings and recommendations as follows:

- Unauthorized Benefit Loans

By discontinuing the practice of granting relief association members personal loans.

PARTIAL COMPLIANCE WITH PRIOR AUDIT RECOMMENDATION

The Montgomery Township Volunteer Firefighters' Relief Association has partially complied with one of the two prior findings and recommendations as follows:

- Inappropriate Ownership of Vehicles

The relief association has contacted with the Pennsylvania Department of Transportation (PennDOT) to resolve this situation and properly title the two 2007 Ford F - 350s in the name of the relief association. In addition, the relief association submitted the registration and transfer information to PennDOT; however, as of the date of this report, PennDOT has rejected the relief association's request because all of the necessary forms to complete such title transfer were not submitted in accordance with PennDOT's registration requirements. Therefore, we recommend that the relief association resubmit the necessary forms as required by PennDOT to properly title the vehicles owned by the relief association in the relief association's name and we will continue to monitor compliance in the subsequent audit period.

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for an expenditure made during the current audit period in the amount of \$2,244 to Jan Communications on December 6, 2010.

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), [FN1] 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.

Without adequate supporting documentation, such as invoices and detailed minutes of meetings evidencing approval of such expenditures, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as an invoice and detailed minutes of relief association meetings, made it impossible to determine if the expenditure was made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). 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.

As a result of our audit, and subsequent to the audit period, on November 7, 2012, the relief association received reimbursement from the Montgomery Township Fire Department for the undocumented expenditure.

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION (Continued)

Finding – Undocumented Expenditure – (Continued):

Recommendation: We recommend 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.

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2011

Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 58,379
Relief benefits	861
Tokens of sympathy and goodwill	599
Total Benefit Services	<u>\$ 59,839</u>
Fire Services:	
Equipment purchased	\$ 209,534
Equipment maintenance	63,280
Training expenses	25,375
Fire prevention materials	2,914
Total Fire Services	<u>\$ 301,103</u>
Administrative Services:	
Lease equipment	\$ 8,413
Other administrative expenses	6,822
Total Administrative Services	<u>\$ 15,235</u>
Total Investments Purchased:	<u>\$ 62,600</u>

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION (Continued)
FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2011

Other Expenditures:		
Undocumented Expenditure	\$	2,244
Principal payments on loan		61,704
Interest payments on loan		2,606
Principal payments on lease-financing		338,228
Interest payments on lease-financing		79,810
Leasing agreements		64,102
Reimbursements to the Fire Company		4,545
Total Other Expenditures	\$	<u>553,239</u>

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Montgomery Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Mike Shinton, President

Mr. Vinay Setty, Vice President

Mr. William Fluck, Secretary

Mr. Joel Silver, Treasurer

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

Mr. Lawrence J. Grogan, Secretary
Montgomery Township

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.