

COMPLIANCE AUDIT

Horsham Fire Company No. 1 Relief Association Montgomery County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

January 2015



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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Department of the Auditor General
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Ms. Linda Greenberg, President
HORSHAM VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Montgomery County

We have conducted a compliance audit of the Horsham 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, 2011 to December 31, 2013.

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 finding 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 Horsham 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 Horsham Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Horsham Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2013, 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.

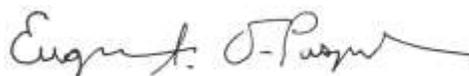
The results of our audit, for the period January 1, 2011 to December 31, 2013, found the Horsham Volunteer Firefighters' Relief Association took appropriate corrective action to address the finding contained in our prior audit report and, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the observation listed below and discussed later in this report.

Observation – FDIC Coverage Limits Exceeded

The results of our tests also indicated the Horsham Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$1,306,222 and an investment balance with a fair value of \$264,746.

The contents of this report were discussed with the management of the Horsham Volunteer Firefighters' 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.

December 30, 2014



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 Horsham Fire Company No. 1 Relief Association, herein referred to as the Horsham 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.

BACKGROUND – (Continued)

The Horsham Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Horsham Township	Montgomery	\$ 442,666	\$ 250,272	\$ 284,406

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

Horsham Fire Company No. 1

HORSHAM VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Horsham Volunteer Firefighters' Relief Association has complied with the prior audit finding and recommendation, as follows:

- Failure To Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

HORSHAM VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – FDIC Coverage Limits Exceeded

As disclosed in a verbal observation in the two previous audits, the relief association again, failed to ensure compliance with banking regulations regarding FDIC coverage limits per account ownership in one institution. As of December 31, 2013, the relief association's ending cash balance with the financial institution amounted to \$1,306,222.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United States government that protects the funds depositors place in banks and savings associations. FDIC insurance is backed by the full faith and credit of the United States government.

FDIC insurance covers all deposit accounts, including:

- Checking accounts
- Savings accounts
- Money market deposit accounts
- Certificates of deposit

FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual funds, life insurance policies, annuities or securities. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.

Act 118 at 35 Pa.C.S. § 7413 states that the purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure as far as circumstances will reasonably permit, that the funds shall be available for the protection of volunteer firefighters' and their heirs.

Furthermore, prudent business practice dictates that in addition to monthly bank reconciliation, the relief association should ensure the relief association's cash balance does not exceed FDIC limits set by banking regulation. Lack of effective monitoring of relief association cash balances places the relief association funds at greater risk for loss.

The relief association should monitor all cash assets and ensure the balance of cash assets per banking institution does not exceed FDIC coverage limits.

HORSHAM VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2011 TO DECEMBER 31, 2013

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.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 189,125
Death benefits	3,000
Relief benefits	12,222
Tokens of sympathy and goodwill	1,498
Total Benefit Services	<u>\$ 205,845</u>
Fire Services:	
Equipment purchased	\$ 194,519
Equipment maintenance	44,445
Training expenses	29,253
Fire prevention materials	65,154
Total Fire Services	<u>\$ 333,371</u>
Administrative Services:	
Other administrative services	<u>\$ 4,848</u>

HORSHAM VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Horsham Volunteer Firefighters' Relief Association Governing Body:

Ms. Linda Greenberg	President
Mr. Samuel Moore	Vice President
Ms. Catherine M. Heger	Secretary
Mr. Michael R. DeLucia	Treasurer

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

Mr. William T. Walker Horsham Township	Secretary
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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.