

COMPLIANCE AUDIT

Abington Fire Company Relief Association Montgomery County, Pennsylvania For the Period January 1, 2019, to December 31, 2022

April 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. August J. Falbo, Jr., President
Abington Fire Company Relief Association
Montgomery County

We have conducted a compliance audit of the Abington Fire Company Relief Association (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 association 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.

We were not able to obtain independent confirmations of the cash balance and the investment balance directly from the financial institutions. Therefore, while the relief association provided bank and investment statements that indicated that, as of December 31, 2022, the relief association had a cash balance of \$77,630 and an investment balance with a fair value of \$292,505, we were not able to verify those cash and investment balances.

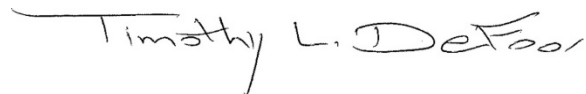
We were also not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by the VFRA Act.

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 the findings contained in our prior audit report.
- Because of the significance of the matter described in the finding below and discussed later in this report and the effects, if any, of the matters described in the two preceding paragraphs, the relief association did not, in all significant respects, comply 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, collectively as a whole. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding – Unauthorized Discretionary Benefit Payments

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.



Timothy L. DeFoor
Auditor General
February 15, 2024

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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.

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>
Abington Township	Montgomery	\$77,940	\$77,697	\$69,370	\$86,891

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)

Based on the relief association’s records, its total cash and investments as of December 31, 2022, were \$370,135, as illustrated below:

Cash	\$ 77,630
Fair Value of Investments	<u>292,505</u>
Total Cash and Investments	<u>\$ 370,135</u>

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2022, were \$715,483, 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	\$ 313,980
Death benefits	<u>25,000</u>
Total Benefit Services	<u>\$ 338,980</u>
Fire Services:	
Equipment purchased	<u>\$ 29,504</u>
Administrative Services:	
Bond premiums	\$ 1,128
Other administrative expenses	<u>5,202</u>
Total Administrative Services	<u>\$ 6,330</u>
Total Investments Purchased	<u>\$ 237,277</u>
Other Expenditures	
Unauthorized Payments – See Finding	<u>\$ 103,392</u>
Total Expenditures	<u>\$ 715,483</u>

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:

Abington Fire Company

ABINGTON FIRE COMPANY RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Unauthorized Expenditure

By receiving reimbursement of \$1,396 from the affiliated fire company for the unauthorized expenditure made in the prior audit period.

- Failure To Comply With Terms Of Unsecured Loan Agreement

By liquidating the fire company loan.

- Inappropriate Payments On An Equipment Agreement

By executing a written formal agreement with the affiliated township that adequately secures its proportional ownership interest in the jointly purchased equipment.

ABINGTON FIRE COMPANY RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Unauthorized Discretionary Benefit Payments

Condition: Although the relief association was cited in our prior audit with an observation to discontinue discretionary benefit payments that were authorized in the relief association’s bylaws, the relief association expended \$103,392 during the current audit period, for the discretionary benefit categorized as 65 Special per the Office of State Fire Commissioner’s online VFRA Database as not authorized under the VFRA Act. Subsequent to the period under review, from January 1, 2023, to July 10, 2023, the relief association expended an additional \$11,042 for 65 Special payments.

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, the Office of the State Fire Commissioner’s online VFRA Database, states:

Item Name	Category	Authorized Expenditure	Comments
Select 65 Special (Supplemental Medicare payment)	Insurance	No	

Furthermore, 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.

Costs associated with 65 Special (Supplemental Medicare payments) do not qualify as an authorized volunteer firefighters’ relief association expenditure; consequently, the disbursements are not authorized under the VFRA Act.

ABINGTON FIRE COMPANY RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Relief association officials were unclear whether the benefits could be paid since the benefits were provided for in the relief association bylaws as authorized discretionary benefits payments. Relief association officials indicated that they are going to stop making the payments and seek guidance from the Office of the State Fire Commissioner.

Effect: As a result of these improper expenditures/payments, relief association funds were not available for investment purposes or to pay for expenditures authorized by the VFRA Act. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association be reimbursed \$114,434 for the unauthorized 65 Special expenditures/payments 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. 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: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

ABINGTON FIRE COMPANY RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by the finding contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action may not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 316E Finance Building, Harrisburg, PA 17120.

ABINGTON FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Abington Fire Company Relief Association Governing Body:

Mr. August J. Falbo, Jr.
President

Mr. Robert A. Woodard
Vice President

Mr. Christopher Platz
Secretary

Mr. Richard A. Roatch
Treasurer

Mr. John H. Bothwell
Assistant Secretary

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

Mr. Richard J. Manfredi
Secretary
Abington Township

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.