

COMPLIANCE AUDIT

Abington Fire Company Relief Association

Montgomery County, Pennsylvania
For the Period
January 1, 2016 to December 31, 2018

August 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
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) 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, 2016 to December 31, 2018.

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 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 required to be and was not 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 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 a portion of the cash balance and a portion of 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, 2018, the relief association had a cash balance of \$67,910 and an investment balance with a fair value of \$273,564, we were not able to verify portions of 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 Act 118.

Based on our audit procedures, we conclude that, for the period January 1, 2016 to December 31, 2018:

- Except for the effects, if any, of the matters described in the preceding paragraph, the relief association took appropriate corrective action to address the finding contained in our prior audit report.
- Because of the significance of the matters described in the findings below and discussed later in this report, 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 No. 1 – Unauthorized Expenditure

Finding No. 2 – Failure To Comply With Terms Of Unsecured Loan Agreement

Finding No. 3 – Inappropriate Payments On An Equipment Agreement

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 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.



EUGENE A. DEPASQUALE
Auditor General

July 24, 2019

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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. Relief association bylaws define the specific operational procedures by which relief associations conduct 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 relief associations 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>2016</u>	<u>2017</u>	<u>2018</u>
Abington Township	Montgomery	\$87,029	\$78,211	\$71,242

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 FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The 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 complete and accurate equipment roster.

ABINGTON FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditure

Condition: The relief association expended \$3,396 for exercise and fitness equipment during the current audit period, which exceeds the amount authorized by Act 118. This amount exceeds the \$2,000 limit by \$1,396.

Criteria: Section 7416(f) of Act 118 states:

- (14) To purchase exercise and fitness equipment for use by volunteer firefighters, except that expenditures for exercise and fitness equipment shall not exceed \$2,000 in any two-year period.

Costs greater than \$2,000 towards exercise and fitness equipment do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials were aware of that they should not exceed \$2,000 on exercise and fitness equipment in a two-year period.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

Recommendation: We recommend that the relief association be reimbursed \$1,396 for the unauthorized expenditure and that relief association officials become familiar with Section 7416(f) of Act 118 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 refrain from purchasing additional exercise and fitness equipment for the next two-year period in an effort to comply with Act 118.

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

Finding No. 2 – Failure To Comply With Terms Of Unsecured Loan Agreement

Condition: On March 5, 2018, the relief association made an unsecured loan to the fire company in the amount of \$100,000; however, the relief association did not receive the monthly loan payments in accordance with the loan agreement. During the audit period, the relief association received a \$30,000 payment but did not receive any payments thereafter. Based on the terms of the agreement, \$70,000 plus interest of 5 percent remains due on the loan.

ABINGTON FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: The terms of the loan agreement state that payments of \$2,997 will be due on a monthly basis.

In addition, Section 7416(c)(3) of Act 118 requires that loans be:

. . . (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure loan payments would be collected in accordance with the payment schedule outlined in the loan agreement. In addition, the loan must be secured to ensure compliance with Act 118.

Effect: Due to the relief association not receiving the scheduled loan payments, funds were unavailable for general operating expenses or for investment purposes. Also, failure to obtain adequate security for the loan places the investment at greater risk. 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 officials collect all delinquent payments. We further recommend that relief association officials ensure future payments are received in accordance with the loan agreement, including interest due. We also recommend the relief association officials and the fire company amend the written loan agreement to provide security for the relief association's investments as required by Section 7416(c)(3) of Act 118. If such action is not taken, we recommend that the loan be immediately liquidated. 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
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inappropriate Payments On An Equipment Agreement

Condition: During the audit period, the relief association made three payments totaling \$20,216 on radio equipment under an agreement to finance the purchase of ten Motorola radios; however, the agreement was between the fire company and the township and not the relief association.

Criteria: Section 7416(f) of Act 118 states:

Funds of any volunteer firefighters' relief association may be spent:

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

In addition, prudent business practice dictates that the relief association maintain ownership of all equipment purchased by the relief association in order to provide protection over all relief association assets.

Cause: The relief association failed to establish internal control procedures, which would require that all purchase agreements be in the name of the relief association for financing of relief association owned equipment.

Effect: As a result of the purchase agreement inappropriately naming the fire company as lessee, the relief association is deemed to be making payments on equipment which will be owned by the fire company. Although payments to finance radio equipment are considered authorized expenditures, the relief association must be named as the lessee in the agreement to ensure that the relief association is documented as the owner of the equipment. 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 officials take appropriate action to ensure that all future lease-purchase agreements financing relief association equipment are in the name of the relief association. In addition, we also recommend the relief association officials execute a formal written agreement with the fire company that enumerates the relief association's ownership interest in the financed equipment. We further recommend that relief association officials refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS, for further guidance in administering the operations of the relief association.

ABINGTON FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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

Conditions such as those reported by Finding Nos. 2 and 3 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are 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 327 Finance Building, Harrisburg, PA 17120.

ABINGTON FIRE COMPANY RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2018

Cash	\$ 67,910
Fair Value of Investments	<u>273,564</u>
Total Cash and Investments	<u>\$ 341,474</u>

ABINGTON FIRE COMPANY RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 215,213
Death benefits	35,000
Relief benefits	<u>72,561</u>
Total Benefit Services	<u>\$ 322,774</u>
Fire Services:	
Equipment purchased	<u>\$ 22,216</u>
Administrative Services:	
Other administrative expenses	\$ 5,000
Bond premiums	<u>1,006</u>
Total Administrative Services	<u>\$ 6,006</u>
Total Investments Purchased	<u>\$ 285,889</u>
Other Expenditures:	
Unauthorized expenditure	<u>\$ 1,396</u>
Total Expenditures	<u><u>\$ 638,281</u></u>

ABINGTON FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Abington Fire Company Relief Association Governing Body:

Mr. August J. Falbo, Jr.
President

Mr. John H. Bothwell
Assistant Secretary

Mr. Richard A. Roatch
Treasurer

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.