

# COMPLIANCE AUDIT

---

## Centre Square Firemen's Relief Association Montgomery County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

---

December 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
[www.PaAuditor.gov](http://www.PaAuditor.gov)

EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Michael Barnshaw, President  
Centre Square Firemen's Relief Association  
Montgomery County

We have conducted a compliance audit of the Centre Square Firemen's 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, 2017.

The objective of the audit was 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 objective 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 the investment balance directly from the financial institutions. Therefore, while the relief association provided the investment statements that indicated that, as of December 31, 2017, the relief association had an investment balance of \$992,023, we were not able to verify this investment balance.

Based on our audit procedures, we conclude that, because of the significance of the matters described in the findings below and discussed later in this report and the effects, if any, of the matter described in the preceding paragraph, 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, for the period January 1, 2016 to December 31, 2017. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Flooring

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

Finding No. 3 – Failure To Disclose Related Party Transactions

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.

December 6, 2018



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Flooring.....	3
Finding No. 2 – Failure To Comply With Terms Of Mortgage Agreement .....	4
Finding No. 3 – Failure To Disclose Related Party Transactions.....	4
Potential Withhold of State Aid.....	6
Supplementary Financial Information .....	7
Report Distribution List .....	9

## 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>
Whitpain Township	Montgomery	\$188,739	\$173,652

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:

Centre Square Fire Company

CENTRE SQUARE FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Flooring**

Condition: On November 5, 2017 and December 9, 2017, the relief association expended a total amount of \$53,345 to purchase epoxy flooring installed in the affiliated fire company. However, the relief association did not adequately secure its ownership interest in this purchase as the building is solely owned by the fire company.

Criteria: Section 7418(a) of Act 118 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), 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.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased flooring by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the building, in the event the building is ever sold.

Cause: Relief association officials failed to adequately secure its proportional ownership interest in the flooring installed in the fire company owned building.

Effect: The failure to adequately secure the proportional share of ownership interest in the flooring installed in the fire company owned building places the relief association's ownership interest 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 execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the fire company owned building for the flooring as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the building is ever sold.

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.

CENTRE SQUARE FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Failure To Comply With Terms Of Mortgage Agreement**

Condition: On July 21, 2016, the relief association granted the fire company a mortgage in the amount of \$485,000. Pursuant to the terms of the mortgage, the fire company made monthly interest only payments until January 2018 and, at that time, the fire company was to start making principal and interest payments. We analyzed the relief association's payments subsequent to our audit period and through the end of our audit work on November 16, 2018, and found that the relief association received payments for eight months of interest in August of 2018 for the months of January to August 2018, which totaled \$9,700, but no payments after August 2018. The relief association has not received any principal payments due the relief association as specified in the agreement.

Criteria: The terms of the mortgage agreement state that payments of \$2,045 will be due on a monthly basis, beginning in January 2018.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure mortgage payments would be collected in accordance with the payment schedule outlined in the mortgage agreement.

Effect: Due to the relief association not receiving the scheduled mortgage payments, funds were unavailable for general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association officials adhere to the corresponding payments on the amortization schedule. We further recommend that relief association officials ensure future payments are received in accordance with the mortgage agreement. If such action is not taken, we recommend that the mortgage 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: Compliance will be subject to verification through our next audit.

**Finding No. 3 – Failure To Disclose Related Party Transactions**

Condition: Relief association officials failed to disclose related party transactions to the relief association membership. The relief association did business with a vendor that employs a relief association officer. During the current audit period, the relief association expended \$45,100 with this vendor for equipment and equipment maintenance. In addition, the relief association also expended \$27,600 for one of its members to install equipment in the fire company.



CENTRE SQUARE FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

A related party transaction occurs when the relief association does business with a vendor that employs or is owned by a relief association officer or a member of an officer's immediate family. Such a transaction may provide a less than arm's length financial benefit to such officer or member of such officer's immediate family through a commission or a profit from a sale.

Criteria: Ethics laws state that all potential related party transactions should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, all officers and/or members involved with a business that is party to the related party transaction should abstain from all votes concerning such transactions.

Cause: Relief association officials indicated that they were unaware that related party transactions should be disclosed to the membership.

Effect: The failure to properly disclose related party transactions may create potential conflicts of interest which could result in the relief association being involved in less than arm's length financial transactions.

Recommendation: We recommend that the relief association officials take the actions necessary to eliminate the appearance of conflicts of interests. Actions should include, but are not limited to, written notification to the relief association membership for each related party transaction, and the abstention from decisions and voting rights by the relief association officials who are involved owners of businesses that have business dealings with the relief association. These actions should be documented in the relief association's minutes. Furthermore, the relief association officials should closely review all related party transactions to ensure that all transactions are at arm's length, i.e., the cost of the services rendered by the firm is competitive.

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.

CENTRE SQUARE FIREMEN'S RELIEF ASSOCIATION  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 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 327 Finance Building, Harrisburg, PA 17120.

CENTRE SQUARE FIREMEN'S RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2017

Cash	\$ 172,405
Fair Value of Investments	992,023
Book Value of Other Investments	<u>485,000</u>
Total Cash and Investments	<u>\$ 1,649,428</u>

CENTRE SQUARE FIREMEN'S RELIEF ASSOCIATION  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 141,590
Relief benefits	4,494
Tokens of sympathy and goodwill	1,040
Total Benefit Services	<u>\$ 147,124</u>
Fire Services:	
Equipment purchased	\$ 207,954
Equipment maintenance	89,502
Training expenses	28,220
Fire prevention materials	1,466
Total Fire Services	<u>\$ 327,142</u>
Administrative Services:	
Officer compensation	\$ 600
Other administrative expenses	7,783
Bond premiums	294
Total Administrative Services	<u>\$ 8,677</u>
Total Investments Purchased	<u>\$ 530,000</u>
Total Expenditures	<u><u>\$ 1,012,943</u></u>

CENTRE SQUARE FIREMEN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Centre Square Firemen's Relief Association Governing Body:

**Mr. Michael Barnshaw**  
President

**Mr. Robert T. Brunner**  
Vice President

**Mr. William Krause**  
Secretary

**Mr. Theodore Fonash**  
Treasurer

**Mr. Matt Kozeniewski**  
Trustee

**Mr. Mike DiDomenico**  
Trustee

**Mr. Zayne Brunner**  
Trustee

**Mr. Paul Lusch**  
Director

**Mr. Neal Bradley**  
Director

**Mr. Tom Strosser**  
Director

CENTRE SQUARE FIREMEN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

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

**Mr. Anthony Greco**  
Secretary  
Whitpain 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).