

COMPLIANCE AUDIT

The Firefighters' Relief Association of Douglass Township Montgomery County, Pennsylvania For the Period January 1, 2017 to December 31, 2019

June 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Steven L. Volpi, President
The Firefighters' Relief Association of
Douglass Township
Montgomery County

We have conducted a compliance audit of The Firefighters' Relief Association of Douglass Township (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, 2017 to December 31, 2019.

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 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 an independent confirmation of the investment balance directly from the financial institution. Therefore, while the relief association provided copies of investment statements that indicated that, as of December 31, 2019, the relief association had an investment balance with a fair value of \$188,874, we were not able to verify this investment balance.

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.

In addition, due to a stay at home order issued by the Governor of the Commonwealth of Pennsylvania during the COVID-19 pandemic, we were unable to observe any of the relief association's equipment to verify its existence.

Based on our audit procedures, we conclude that, for the period January 1, 2017 to December 31, 2019:

- The relief association did not take appropriate corrective action to address the findings contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report.
- Except for the effects, if any, of the matters described in the three preceding paragraphs, the relief association, in all significant respects, 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, except as noted in the findings listed below and discussed later in this report.


Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditure

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Duplicate Payment

Finding No. 3 – Inadequate Financial Record-Keeping System

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.

June 17, 2020


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 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.

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Douglass Township	Montgomery	\$66,976	\$61,212	\$67,097

BACKGROUND – (Continued)

Based on the relief association’s records, their total cash and investments as of December 31, 2019 were \$338,116, as illustrated below:

Cash	\$ 149,242
Fair Value of Investments	<u>188,874</u>
Total Cash and Investments	<u>\$ 338,116</u>

Based on the relief association’s records, their total expenditures for the period January 1, 2017 to December 31, 2019 were \$267,252, 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.¹ **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	\$ 28,017
Relief benefits	<u>137</u>
Total Benefit Services	<u>\$ 28,154</u>

Fire Services:

Equipment purchased	\$ 168,997
Equipment maintenance	49,568
Training expenses	10,164
Fire prevention materials	<u>5,623</u>
Total Fire Services	<u>\$ 234,352</u>

Administrative Services:

Other administrative expenses	\$ 1,309
Bond premiums	<u>952</u>
Total Administrative Services	<u>\$ 2,261</u>

Other Expenditures:

Miscellaneous	\$ 82
Unauthorized expenditure	<u>2,403</u>
Total Other Expenditures	<u>\$ 2,485</u>

Total Expenditures	<u>\$ 267,252</u>
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¹ 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:

Gilbertsville Fire & Rescue Company

THE FIREFIGHTERS' RELIEF ASSOCIATION OF DOUGLASS TOWNSHIP
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with the following prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Unauthorized Expenditures

Although the relief association received reimbursement of \$2,280 from the affiliated fire company for the unauthorized expenditures that were made in the prior audit period, the relief association again expended funds in the current audit period that were not authorized by Act 118 as further disclosed in Finding No. 1 of this report.

- Duplicate Payment

We are concerned by the relief association's failure to correct those previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

THE FIREFIGHTERS' RELIEF ASSOCIATION OF DOUGLASS TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditure

Condition: The relief association expended \$2,403 for the fire company's commercial insurance package policy during the current audit period that is not authorized by Act 118.

A similar condition was noted in our prior audit report.

Criteria: Section 7416(f) of Act 118 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.

Costs associated with the fire company's commercial insurance package policy do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the expenditure for the commercial insurance package policy was not authorized by Act 118.

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 \$2,403 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 take action to comply with the recommendation.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

THE FIREFIGHTERS' RELIEF ASSOCIATION OF DOUGLASS TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Duplicate Payment

Condition: As disclosed in the prior audit report, on March 7, 2013, the relief association expended \$440 for the purchase of a computer. On June 27, 2013, the relief association erroneously made a duplicate payment for the same computer. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment and, the relief association officials did not take corrective action to address the duplicate payment prior to the current audit period ending December 31, 2019.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices and to ensure duplicate payments are recouped.

Cause: Even though notified of this condition during our prior audit, the relief association failed to obtain reimbursement for the duplicate payment made during the prior audit period.

Effect: As a result of failing to obtain reimbursement for the erroneous payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We again recommend that the relief association be reimbursed \$440 for the erroneous duplicate payment. The relief association officials should consider contacting the vendor to recover the duplicate payment or seek reimbursement. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$440 for the erroneous duplicate payment on June 1, 2020.

Auditor's Conclusion: We reviewed the documentation verifying that the reimbursement of \$440 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

THE FIREFIGHTERS' RELIEF ASSOCIATION OF DOUGLASS TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Financial Record-Keeping System

Condition: The relief association's financial record-keeping system did not establish adequate accounting procedures to allow the membership to effectively monitor the relief association's financial operations. The following are the noted deficiencies:

- The journal was incomplete as it failed to record the majority of the receipts and many of the disbursements of the relief association.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Meeting minutes provided were not signed by the Recording Secretary of the relief association.

Criteria: Section 7415(a) of Act 118 states:

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure they maintained an adequate financial record-keeping system.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We recommend that the relief association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations. 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.

THE FIREFIGHTERS' RELIEF ASSOCIATION OF DOUGLASS TOWNSHIP
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Firefighters' Relief Association of Douglass Township Governing Body:

Mr. Steven L. Volpi
President

Mr. Rick Smith
Vice President

Mr. Edward Henninger
Secretary

Mr. McKenna Powanda
Treasurer

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

Ms. Marcy Meitzler
Secretary
Douglass 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.