

COMPLIANCE AUDIT

McKinley Volunteer Fire Company Relief Association Montgomery County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

January 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Geoffrey S. Kerrick, President
McKinley Volunteer Fire Company
Relief Association
Montgomery County

We have conducted a compliance audit of the McKinley Volunteer Fire Company Relief Association (relief association) for the period January 1, 2018 to December 31, 2020. 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, 35 Pa.C.S. § 7411 *et seq.* ("VFRA Act"), as most recently amended by Act 91 of 2020.

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, 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 a portion of the cash balance and a portion of the investment balance directly from the financial institution. Therefore, while the relief association provided bank and investment statements that indicated that, as of December 31, 2020, the relief association had a cash balance of \$273,864 and an investment balance with a fair value of \$842,290, 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 the VFRA Act.

Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2020:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- Because of the significance of the matter described in Finding No. 1 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.

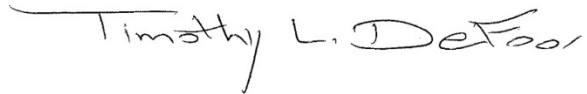
Finding No. 1 – Failure To Deposit Proceeds From Sale Of A Jointly Purchased Vehicle

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

Finding No. 3 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 4 – Failure To Maintain A Complete And Accurate Membership Roster

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
November 17, 2021

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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 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>2018</u>	<u>2019</u>	<u>2020</u>
Abington Township	Montgomery	\$71,242	\$77,940	\$77,697

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, 2020 were \$1,116,154, as illustrated below:

Cash	\$ 273,864
Fair Value of Investments	<u>842,290</u>
Total Cash and Investments	<u>\$ 1,116,154</u>

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$532,705, 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	\$ 165,093
Relief benefits	<u>1,634</u>
Total Benefit Services	<u>\$ 166,727</u>
Fire Services:	
Equipment purchased	\$ 83,738
Equipment maintenance	18,037
Training expenses	<u>8,700</u>
Total Fire Services	<u>\$ 110,475</u>
Administrative Services:	
Other administrative expenses*	\$ 4,461
Bond premiums	<u>1,042</u>
Total Administrative Services	<u>\$ 5,503</u>
Total Investments Purchased	<u>\$ 250,000</u>
Total Expenditures	<u>\$ 532,705</u>

* A portion of the other administrative expenses includes \$3,120 for the preparation of tax returns.

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:

McKinley Volunteer Fire Company

MCKINLEY VOLUNTEER 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:

- Inappropriate Ownership Of A Vehicle

By ensuring the title of the vehicle was transferred to the relief association.

MCKINLEY VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

Condition: The relief association contributed \$200,000 towards the joint purchase of a ladder truck with the affiliated fire company which had a total cost of \$679,559. The relief association entered into an agreement with the affiliated fire company dated February 10, 2015 which stipulated that the relief association would receive the pro-rata share percentage of 29.56% if the vehicle was ever sold. In 2021, the jointly purchased vehicle was sold for \$350,000. The relief association received and deposited \$88,000 from this sale; however, the full proportional ownership interest of the proceeds from the sale of the jointly purchased vehicle should have been \$103,460.

Criteria: Section 7418(a) of the VFRA Act 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 vehicle 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 vehicle, in the event the vehicle is ever sold. Once the vehicle is sold, the relief association officials should closely monitor all sales to ensure proceeds are received and timely deposited into a relief association account.

Cause: Although the relief association officials did execute a formal written agreement with the affiliated fire company, the relief association officials failed to ensure that it received and deposited its full proportional ownership interest due from the proceeds of the sale and did not provide a reason for why this occurred.

Effect: The failure to receive and deposit the full proceeds from the sale of a jointly purchased vehicle with the affiliated fire company places the relief association's ownership interest at greater risk. As a result, the relief association was unable to use the funds for general operating expenses or for investment purposes. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

MCKINLEY VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the relief association be reimbursed \$15,460 for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all future proceeds resulting from the sale of a jointly purchased vehicle are timely deposited in a relief association account. 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.

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

Condition: On December 14, 2017, the relief association made a short-term loan to the affiliated fire company in the amount of \$200,000; however, the relief association did not receive the \$500 monthly interest payments due for March and April of 2018 totaling \$1,000.

Criteria: The terms of the loan agreement state that interest payments of \$500 will be due on a monthly basis, beginning on January 1, 2018.

Cause: The relief association officials did not provide a reason for why this occurred.

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

Recommendation: We recommend that the relief association officials collect \$1,000 representing two months delinquent interest payments through April 11, 2018. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

MCKINLEY VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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: Compliance will be subject to verification through our next audit.

Finding No. 3 – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit period, it was incomplete because it did not contain the names of suppliers (vendors), dates of purchase, cost of equipment and serial numbers to accurately identify equipment owned by the relief association. As such, it was impossible to determine if all equipment purchased during the audit period in the amount of \$87,738 was recorded. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

Cause: Relief association officials indicated that they were unaware of the necessity to maintain a roster of equipment that includes the names of suppliers (vendors), dates of purchase, cost of equipment and serial numbers.

MCKINLEY VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association’s equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. 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. 4 – Failure To Maintain A Complete And Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association’s membership, as identified by criteria set forth in the relief association’s bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members’ mailing addresses
- Dates of births
- Dates of memberships
- Membership classifications

In addition, when warranted, a notation should be made on the roster identifying the date of a member’s resignation or death.

Cause: Relief association officials indicated that they were unaware that they should maintain a comprehensive roster of relief association members.

MCKINLEY VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

MCKINLEY VOLUNTEER FIRE COMPANY 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.

MCKINLEY VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

McKinley Volunteer Fire Company Relief Association Governing Body:

Mr. Geoffrey S. Kerrick
President

Mr. Walter Blasy
Vice President

Mr. Jerry Hines
Secretary

Mr. Robert F. Dow, Jr.
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.