

COMPLIANCE AUDIT

Fire Department of Montgomery Township Relief Association Montgomery County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

January 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Michael Shinton, President
Fire Department of Montgomery
Township Relief Association
Montgomery County

We have conducted a compliance audit of the Fire Department of Montgomery Township 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, 2015 to December 31, 2016.

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 directly from the financial institutions. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2016, the relief association had a cash balance of \$434,859, we were not able to verify portions of this cash balance.

Based on our audit procedures, we conclude that, for the period January 1, 2015 to December 31, 2016:

- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this 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 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Inappropriate Ownership of Rescue Vehicles

Finding No. 3 – Undocumented Expenditures

The three findings contained in this report cite conditions that existed in the operation of the relief association during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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.

January 22, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

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.

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2015</u>	<u>2016</u>
Montgomery Township	Montgomery	\$249,815	\$248,669

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:

The Fire Department of Montgomery Township

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain A Complete And Accurate Equipment Roster

We are concerned by the relief association's failure to correct this previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – 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) and dates of purchase, to accurately identify equipment owned by the relief association. As such, it was impossible to determine if all equipment purchased during the audit period 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.

A similar condition was noted in our prior audit report.

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: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The continued 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.

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again 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: We are concerned by the relief association’s failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendations noted in this audit report.

Finding No. 2 – Inappropriate Ownership Of Rescue Vehicles

Condition: The relief association purchased three vehicles during the audit period (2015 Chevrolet Silverado for \$38,351 and two 2016 Chevrolet Tahoe vehicles at \$34,500 each); however, these vehicle titles were inappropriately issued in the name of the fire company.

Criteria: Prudent business practice dictates that the relief association should maintain sole ownership of all equipment purchased by the relief association. As such, rescue vehicles purchased by the relief association are to be titled in the name of the relief association.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that the rescue vehicle purchased were titled in the name of the relief association.

Effect: As a result of the rescue vehicles being inappropriately titled in the name of the fire company, these relief association assets were not properly safeguarded. Furthermore, the relief association’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the rescue vehicles be titled in the name of the relief association. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP 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, as a result of our audit, the relief association has properly retitled the 2015 Chevrolet Silverado and one of the 2016 Chevrolet Tahoe vehicles into the relief association’s name. In addition, the relief association management indicated they will comply with the recommendation by retitling the remaining 2016 Chevrolet Tahoe in the relief association’s name.

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. 3 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

Date	Check No.	Description	Amount
01/18/2015	3079	Reimbursed member	\$ 110
02/01/2015	3084	Food at meeting	152
02/22/2015	3106	Food at meeting	210
04/26/2015	3149	Reimbursed member	80
05/06/2015	3166	Reimbursed member	600
05/17/2015	3179	Reimbursed member	140
05/17/2015	3180	Reimbursed member	250
05/17/2015	3183	Food at meeting	127
06/30/2015	3203	Reimbursed member	300
06/21/2015	3205	Reimbursed member	300
06/21/2015	3206	Reimbursed member	500
06/28/2015	3208	Reimbursed member	31
07/05/2015	3215	Equipment expense	148
08/02/2015	3239	Food at meeting	122
08/23/2015	3253	Reimbursed member	60
10/05/2015	3281	Reimbursed member	985
12/12/2015	3325	Equipment expense	545
02/07/2016	3365	Reimbursed member	524
02/21/2016	3373	Reimbursed member	20
03/20/2016	3388	Reimbursed member	31
03/27/2016	3397	Food at meeting	56

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
09/11/2016	3492	Reimbursed member	789
10/23/2016	3524	Reimbursed member	149
12/26/2016	3563	Food at meeting	517
Total			<u>\$ 6,746</u>

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) 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.

Without adequate supporting documentation, such as an invoice, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated. 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 provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the expenditures or that the relief association be reimbursed \$6,746 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP 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.

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions such as that reported by Finding Nos. 2 and 3 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.

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2016

Cash	\$ 434,859
Fair Value of Investments	<u>\$ 114,247</u>
Total Cash and Investments	<u><u>\$ 549,106</u></u>

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 52,915
Relief benefits	1,056
Tokens of sympathy and goodwill	98
Total Benefit Services	\$ 54,069
Fire Services:	
Equipment purchased	\$ 710,673
Equipment maintenance	50,573
Training expenses	47,264
Fire prevention materials	1,616
Total Fire Services	\$ 810,126
Administrative Services:	
Other administrative expenses	\$ 17,334
Bond premiums	813
Total Administrative Services	\$ 18,147
Other Expenditures:	
Payments on loan	\$ 36,551
Payments on lease-financing	4,065
Undocumented expenditures	6,746
Total Other Expenditures	\$ 47,362
Total Expenditures	\$ 929,704

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Fire Department of Montgomery Township Relief Association Governing Body:

Mr. Michael Shinton
President

Mr. Paul Mogensen
Vice President

Mr. Michael Goldberg
Secretary

Mr. Joel Silver
Treasurer

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

Mr. Lawrence Gregan
Secretary
Montgomery 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.