

COMPLIANCE AUDIT

Fire Department of Montgomery Township Relief Association Montgomery County, Pennsylvania For the Period January 1, 2019, to December 31, 2022

September 2023



Commonwealth of Pennsylvania
Department of the Auditor General
Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Paul Mogensen, 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) for the period January 1, 2019, to December 31, 2022. 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 ("VFRA Act"), see 35 Pa.C.S. § 7418.

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 independent confirmations of the cash balance and 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, 2022, the relief association had a cash balance of \$719,692 and an investment balance with a fair value of \$126,373, we were not able to verify those cash and investment balances.

Based on our audit procedures, we conclude that, for the period January 1, 2019, to December 31, 2022:

- 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.
- Except for the effects, if any, of the matter described in the preceding paragraph, 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.

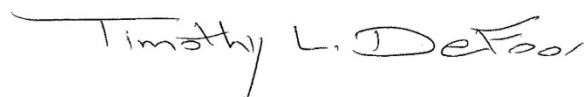
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

We have also issued the observation below as detailed in the Observation section of this report.

Observation – FDIC Coverage Limits Exceeded

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.



Timothy L. DeFoor
Auditor General
September 5, 2023

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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.

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)

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

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Montgomery Township	Montgomery	\$222,614	\$221,793	\$194,194	\$228,631

Based on the relief association's records, its total cash and investments as of December 31, 2022, were \$846,065, as illustrated below:

Cash	\$ 719,692
Fair Value of Investments	<u>126,373</u>
Total Cash and Investments	<u>\$ 846,065</u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2022, were \$740,665, 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	\$ 124,663
Relief benefits	21,001
Total Benefit Services	<u>\$ 145,664</u>

Fire Services:

Equipment purchased	\$ 380,963
Equipment maintenance	118,960
Training expenses	58,956
Fire prevention materials	4,033
Total Fire Services	<u>\$ 562,912</u>

Administrative Services:

Bond premiums	\$ 1,326
Other administrative expenses *	30,763
Total Administrative Services	<u>\$ 32,089</u>

Total Expenditures	<u><u>\$ 740,665</u></u>
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*A majority of the other administrative expenditures represent monthly internet services totaling \$11,599, monthly phone services totaling \$9,023 for the four-year audit period, accounting services, finalizing records, and prep of IRS Form 990EZ in the amount of \$5,845, as well as office supplies totaling \$3,786.

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

⁴ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

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 Finding and Recommendation 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 relief 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), 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 was recorded. Furthermore, although relief association officials indicated that a physical inventory of equipment was conducted on an annual basis, there was insufficient documentation to demonstrate the extent of the annual physical inventories conducted.

A similar condition was noted in our three prior audit reports. Based on the relief association's records, total equipment purchases in the current and the three prior audit periods that have not been properly recorded or inventoried at least annually, not including rescue vehicle purchases and donated equipment, was approximately \$1 million.

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 the deficiency was due to a lack of awareness. Relief officials stated that people who log in the equipment purchased need to be and will be made aware of the importance of keeping accurate and complete records.

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The continued failure to properly record equipment purchases in a detailed equipment roster prevents relief officials from effectively monitoring the relief association’s equipment purchases. In addition, the failure to maintain a detailed equipment roster and sufficiently document the performance of an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment. Furthermore, continued failure to properly maintain a complete and accurate equipment roster and lack of performing annual physical inventories could result in the potential withholding of state aid.

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 recommendation noted in this audit report. Furthermore, continued failure to implement the recommendation noted could result in the potential withholding of state aid.

Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Condition: On August 18, 2019, the relief association expended \$3,452 towards the joint purchase of rescue equipment with the affiliated fire company without properly securing its ownership interest.

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.

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

Cause: The relief association executed an agreement, but the agreement was insufficient in that it did not enumerate the relief association’s proportional ownership interest or stipulate sales proceeds would revert to the relief association in the event the equipment was ever sold. The agreement, however, did stipulate that the relief association was responsible for the maintenance and repairs of the equipment despite the lack of proportional ownership interest.

Effect: The failure to adequately secure the proportional share of ownership interest in the equipment places the relief association’s ownership interest at greater risk.

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 rescue equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the equipment is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$3,452. 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 relief association provided a formal written agreement with the affiliated fire company in which the fire company relinquished all ownership rights of the equipment to the relief association on August 7, 2023.

Auditor’s Conclusion: We reviewed documentation verifying the agreement between the affiliated fire company and relief association and determined that the agreement did not contain all the required authorizing signatures. The relief association should provide an agreement with the appropriate authorizing signatures. Compliance with executing formal written agreements for joint purchases will be subject to verification through our next audit.

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION
OBSERVATION

Observation – FDIC Coverage Limits Exceeded

As disclosed in a written observation in the three previous audit reports, the relief association again failed to ensure that all cash deposits were below the FDIC coverage limits per account ownership in one institution. As of December 31, 2022, the relief association's ending cash balance with the financial institution amounted to \$642,514.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United States government that protects the funds depositors place in banks and savings associations. FDIC insurance is backed by the full faith and credit of the United States government.

FDIC insurance covers all deposit accounts, including:

- Checking accounts
- Savings accounts
- Money market accounts
- Certificates of deposit

FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual funds, life insurance policies, annuities and securities. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.

Section 7413 of the VFRA Act states that the purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure as far as circumstances will reasonably permit, that the funds shall be available for the protection of the volunteer firefighters' and their heirs.

Furthermore, prudent business practice dictates that in addition to performing monthly bank reconciliations, the relief association should ensure the relief association's cash balance does not exceed FDIC limits set by banking regulations. Lack of effective monitoring of relief association cash and investment assets places the relief association funds at greater risk for loss.

The relief association should monitor all cash and investment assets that are eligible for FDIC insurance and ensure the balance of those assets per banking institution does not exceed FDIC coverage limits.

FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Fire Department of Montgomery Township Relief Association Governing Body:

Mr. Paul Mogensen
President

Mr. Carl Herr
Vice President

Mr. Bill Tuttle
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:

Ms. Carolyn McCreary
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.