

COMPLIANCE AUDIT

Upper Frederick Volunteer Fireman's 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. William O'Donnell, President
Upper Frederick Volunteer Fireman's
Relief Association
Montgomery County

We have conducted a compliance audit of the Upper Frederick Volunteer Fireman'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, 2015 to December 31, 2016.

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 objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, for the period January 1, 2015 to December 31, 2016, 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 finding listed below and discussed later in this report:

Finding – Relief Association Certificate Of Deposit Inappropriately Registered Under Affiliated Fire Service Organization’s Federal Tax Identification Number

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 response has 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.

January 9, 2018



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>
Upper Frederick Township	Montgomery	\$25,389	\$25,245

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:

Upper Frederick Volunteer Fire Company

UPPER FREDERICK VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Relief Association Certificate Of Deposit Inappropriately Registered Under Affiliated Fire Service Organization's Federal Tax Identification Number

Condition: As of December 31, 2016, the relief association held a certificate of deposit, with a total cost value of \$25,077. However, in 2015 and 2016, the relief association did not maintain the appropriate ownership for the certificate of deposit which was inappropriately registered under the fire company's federal tax identification number. By December 31, 2016, the certificate of deposit was again appropriately registered under the relief association's federal tax identification number.

Criteria: Prudent business practice dictates that the relief association maintain ownership of all investments as a means of safeguarding its assets from unauthorized use or disposition. Furthermore, relief association funds should not be comingled with any other organization's funds in order to maintain effective control of its assets.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that the investments purchased were registered with the relief association's federal tax identification number at all times. Furthermore, the fact that the officers of the relief association are also officers of the fire company, and hold the same position in both, may have been a contributing factor in the alternating federal tax identification numbers.

Effect: As a result of the investment being inappropriately registered under another entity's federal tax identification number, this relief association asset was not properly safeguarded.

Recommendation: We recommend that the relief association officials secure ownership rights to all monetary assets. This requirement can be accomplished by ensuring that all investments are registered under the relief association's federal tax identification number and that all investments are solely 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.

Management's Response: Relief association management agreed with the finding as presented and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

UPPER FREDERICK VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2016

Cash	\$ 41,069
Fair Value of Investments	<u>25,077</u>
Total Cash and Investments	<u>\$ 66,146</u>

UPPER FREDERICK VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 3,292
Fire Services:	
Equipment purchased	\$ 4,714
Equipment maintenance	10,180
Training expenses	880
Fire prevention materials	4,337
Total Fire Services	\$ 20,111
Administrative Services:	
Other administrative expenses	\$ 163
Bond premiums	419
Total Administrative Services	\$ 582
Total Investments Purchased	\$ 10,000
Other Expenditures:	
Miscellaneous *	\$ 14,647
Total Expenditures	\$ 48,632

*The relief association made an erroneous deposit in May of 2015. On July 13, 2015, the relief association returned the \$14,647 to the affiliated fire company.

UPPER FREDERICK VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Upper Frederick Volunteer Fireman's Relief Association Governing Body:

Mr. William O'Donnell
President

Mr. Patrick Corcoran
Vice President

Ms. Janey Kollock
Secretary

Ms. Stacey David
Treasurer

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

Ms. Jackie Tallon
Secretary
Upper Frederick 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.