



THE FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

**MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION**

MONTGOMERY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 TO DECEMBER 31, 2008



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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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), 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 Montgomery Township Volunteer Firefighters' 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 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, it is the responsibility of the volunteer firefighters' relief association 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, which is or are recognized as providing the service to the municipality. The Montgomery Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Montgomery Township	Montgomery	\$232,221	\$243,472	\$250,825

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Montgomery Township Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Fire Department of Montgomery Township

Mr. David S. Wolfe, President
MONTGOMERY TOWNSHIP VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Montgomery County

We have conducted a compliance audit of the Montgomery Township Volunteer Firefighters' 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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 *et seq.* (commonly referred to as Act 84), for the period January 1, 2006 to December 31, 2008.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Montgomery Township Volunteer Firefighters' Relief Association's administration of state aid and accumulated funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the

volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Montgomery Township Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Montgomery Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives.

The results of our audit for the period January 1, 2006 to December 31, 2008, found, in all significant respects, the Montgomery Township Volunteer Firefighters' Relief Association took appropriate corrective action to address the findings contained in our prior audit report and received and expended state aid and accumulated funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed later in this report. The results of our tests also indicated the Montgomery Township Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$175,241 and an investment balance with a fair value of \$150,000.

Finding No. 1 – Inappropriate Ownership of Vehicles

Finding No. 2 – Unauthorized Benefit Loans

The contents of this report were discussed with the management of the Montgomery Township Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

March 26, 2009

JACK WAGNER
Auditor General

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Montgomery Township Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Unauthorized Expenditure

By receiving reimbursement from the affiliated fire department, in the amount of \$3,038, for an unauthorized expenditure made in the prior audit period. In addition, the relief association did not make any additional unauthorized expenditures during the current audit period.

- Inadequate Officer's Bond Coverage

By obtaining a bond policy solely in the relief association's name.

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inappropriate Ownership of Vehicles

Condition: On August 2, 2006, the relief association entered into a lease agreement with Commerce Commercial Leasing, LLC to purchase two F-250 Ford trucks, in the amount of \$56,203, to transport personnel and safeguard equipment. However, instead of the relief association, the two vehicles were inappropriately registered in the name of the Montgomery Township Fire Department.

Criteria: The relief association should maintain sole ownership of all equipment purchased by the relief association. As such, all vehicles purchased by the relief association must be owned by, and registered in the name of, the relief association.

Cause: The relief association failed to establish adequate internal control procedures to ensure that all vehicles purchased are owned by, and registered in the name of, the relief association.

Effect: As a result of the vehicles being inappropriately registered in the name of the fire department, the relief association's assets were not properly safeguarded.

Recommendation: We recommend that all purchased vehicles be owned by, and registered 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 and recognized the clerical error made in the name represented on the registrations for the vehicles. A representative of the relief association has taken action to have the ownership information corrected on the vehicle registrations in question. It should be noted that all associated bank paperwork for financing of these vehicles does reflect the correct nomenclature, detailing that the purchases were made by the relief association.

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Benefit Loans

Condition: During the current audit period, the relief association granted five individual relief benefit loans, totaling \$4,300, to relief association members in the form of financial assistance, in accordance with an amendment to Article XIII of the relief association bylaws. While the relief association bylaws authorize the relief association to grant individuals financial hardship loans to members, personal loans to members have been deemed unauthorized by the Department of Community and Economic Development (DCED), pursuant to Act 84.

Criteria: Act 84 at 53 P.S. § 8506(c)(1) states, in part:

All, or any part of the funds of any volunteer firefighters' relief association may be invested:

In any form of investment named in the Fiduciaries Act of 1949, as amended, including first mortgages. Such first mortgages insuring repayment of loans by relief associations must provide for a minimum interest payment of three percent and not exceed eighty percent of the appraised value of the real property covered by the mortgage.

Because the Department of the Auditor General is legislatively prohibited from giving pre-audit advice, an interagency agreement with the Department of Community and Economic Development (DCED) has been established whereby the DCED provides interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." Personal loans to relief association members have been deemed by DCED to not qualify as authorized expenditures, as the only type of member loans authorized under Act 84 are mortgages.

Cause: Relief association officials were unaware that the aforementioned loans were not authorized by Act 84.

Effect: As a result of these improper loans, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 84.

However, subsequent to the audit period, as of May 2009, the members had repaid all loans in full.

Recommendation: We recommend the relief association officials immediately discontinue granting personal loans to its members. Furthermore, we also recommend that relief association officials become familiar with Act 84 to aid them in determining the propriety of future disbursements. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management's Response: Relief association management disagreed with the finding and stated, in part, that the 2006 VFRA Guidelines state that relief associations can loan money to volunteer fire companies and to municipalities, so the relief association does not understand why loans cannot be disbursed to individual members. However, based upon this finding and the recommendation of the auditor, the relief association will discontinue this practice at its next monthly business meeting.

Auditor's Conclusion: Pursuant to Act 84, the only types of loans that can be made to individual relief association members are mortgages wherein there is collateral for the loan and interest is charged. Furthermore, DCED has taken the position that personal loans to relief association members, regardless of the purpose, are not permissible transactions. Therefore, the department stands by the finding and recommendation.

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

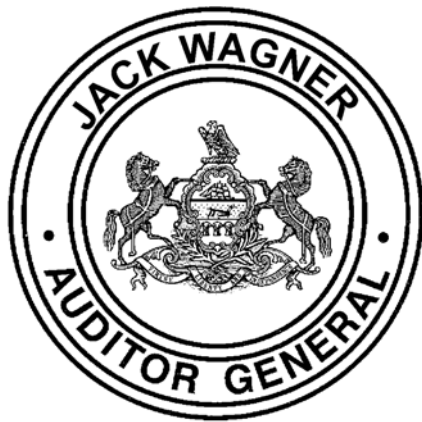
Act 84 at 53 P.S. § 8502(1) states, in part, that:

A volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds. All expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 47,954
Relief benefits	17,363
Tokens of sympathy and goodwill	1,058
Total Benefit Services	\$ 66,375
Fire Services:	
Equipment purchased	\$ 368,071
Equipment maintenance	46,459
Training expenses	43,713
Fire prevention materials	6,604
Total Fire Services	\$ 464,847
Administrative Services:	
Miscellaneous administrative expenses	\$ 7,800
Total Administrative Services	\$ 7,800
Total Investments Purchased	\$ 586,724
Other Expenditures:	
Principal payments on lease-financing	\$ 113,452
Interest payments on lease-financing	78,496
Total Other Expenditures	\$ 191,948



MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Montgomery Township Volunteer Firefighters' Relief Association Governing Body:

Mr. David S. Wolfe, President

Mr. Michael Bean, Vice President

Ms. Melanie Vasconez, Secretary/Treasurer

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

Mr. Lawrence J. Gregan, Secretary
Montgomery Township

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.