

COMPLIANCE AUDIT

Perkiomen Township Volunteer Fireman's Relief Association Montgomery County, Pennsylvania For the Period January 1, 2020, to December 31, 2023

January 2025



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. John Barnshaw, President
Perkiomen Township Volunteer
Fireman's Relief Association
Montgomery County

We have conducted a compliance audit of the Perkiomen Township Volunteer Fireman's Relief Association (relief association) for the period January 1, 2020, to December 31, 2023. 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 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, 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 association 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.

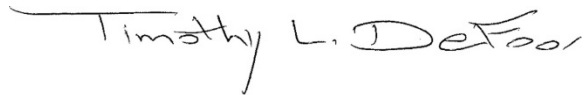
Based on our audit procedures, we conclude that, for the period January 1, 2020, to December 31, 2023, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

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

Finding No. 2 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

Finding No. 3 – Inadequate Relief Association Bylaws

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
December 11, 2024

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania,¹ Section 403 of The Fiscal Code,² and the Volunteer Firefighters' Relief Association Act ("VFRA Act"),³ 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, commonly referred to as Act 205,⁴ 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 relief association officers therefore have a responsibility to the public to conduct the relief association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all relief association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the relief 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>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Perkiomen Township	Montgomery	\$59,383	\$53,023	\$64,407	\$64,130

¹ Pa. Const. Art. VIII § 10.

² 72 P.S. § 403.

³ 35 Pa.C.S. § 7411 *et seq.*

⁴ 53 P.S. § 895.701 *et seq.*

BACKGROUND – (Continued)

Based on the relief association’s records, its total cash as of December 31, 2023, was \$234,612, as illustrated below:

Cash	<u>\$ 234,612</u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2020, to December 31, 2023, were \$277,534, 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.⁵ **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	<u>\$ 31,239</u>
Fire Services:	
Equipment purchased	\$ 195,225
Equipment maintenance	24,477
Training expenses	18,951
Fire prevention materials	4,414
Total Fire Services	<u>\$ 243,067</u>
Administrative Services:	
Bond premiums	\$ 1,180
Other administrative expenses *	1,897
Total Administrative Services	<u>\$ 3,077</u>
Other Expenditures:	
Unauthorized expenditures **	<u>\$ 151</u>
Total Expenditures	<u><u>\$ 277,534</u></u>

* A majority of the Other administrative expenses represent tax preparation in the amount of \$1,860.

** During calendar year 2023, the relief association made two disbursements totaling \$151 that were not authorized under the VFRA Act. We disclosed this issue to relief association officials on September 25, 2024, but we did not include a finding in this report due to the relatively low dollar amount.

⁵ 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:

Perkiomen Township Fire Company

PERKIOMEN TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: In 2003, the relief association expended \$20,000 towards the joint purchase of a 1998 4 Guys/HME Tanker vehicle with the affiliated fire company which had a total cost of \$302,980. The relief association entered into an agreement with the affiliated fire company dated October 22, 2003, where the relief association would receive the pro-rata share percentage of 6.60% if the vehicle was ever sold. In 2019, the jointly purchased vehicle was sold for \$130,000; however, the relief association did not receive and deposit its proportional ownership interest of the proceeds from the sale of the jointly purchased vehicle.

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: Relief association officials did execute a formal written agreement with the fire company; however, failed to ensure that it received and deposited its proportional ownership interest due from the proceeds of the sale of a jointly purchased vehicle with the affiliated fire company into a relief association account.

Effect: The failure to receive and deposit the 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.

PERKIOMEN TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the relief association be reimbursed \$8,581 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$8,581 for its pro-rata share of the proceeds from the sale of the jointly purchased vehicle on October 15, 2024.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$8,581 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

Condition: As cited as verbal observations in prior audits, the relief association failed to maintain a Pennsylvania sales tax exemption number. Although the relief association had its own sales tax exemption number, it expired on August 31, 2010, and is no longer valid.

Criteria: Section 7415(e) of the VFRA Act states:

A volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

Cause: Relief association officials indicated that they had difficulty reapplying and getting an updated sales tax exemption number from the Pennsylvania Department of Revenue.

Effect: As a result of the relief association's continued failure to maintain a sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on their purchases, which ultimately reduces the funds otherwise available for general operating expenditures or for investment purposes.

PERKIOMEN TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again recommend that the relief association officials immediately reapply for a new state sales tax exemption number from the Department of Revenue and furnish this exemption number to all vendors from whom the relief association purchases equipment. 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. 3 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the relief association do not contain all the provisions required by Section 7415(c) of the VFRA Act. Specifically, the bylaws do not require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

In addition, the existing bylaws of the relief association contains language to conduct business pertaining to the disbursement, investment, and purchase of funds that is based on Act 84 of June 11, 1968. The relief association has not updated the bylaws to govern their organization to meet the requirements set forth in the VFRA Act.

Criteria: Section 7415(c) of the VFRA Act states that the relief association's bylaws shall:

- (3) Require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

Cause: Relief association officials indicated that they were unaware of the mandatory bylaw provisions established by the VFRA Act.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

PERKIOMEN TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the relief association officials review and remove the language referring to Act 84 by updating the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act and properly authorize the operating procedures 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 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.

PERKIOMEN TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Perkiomen Township Volunteer Fireman's Relief Association Governing Body:

Mr. John Barnshaw
President

Mr. John Moran, Jr.
Vice President

Mr. Brad Bonner
Secretary

Mr. Kevin Motsavage
Treasurer

Mr. William Patterson
Custodian of Records

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

Ms. Cecile M. Daniel
Secretary
Perkiomen 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.