

Audit Report

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**Baltimore County Volunteer Firemen's Association, Inc. -  
Length of Service Award Program**

**April 1998**

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Office of the County Auditor  
Baltimore County, Maryland



BALTIMORE COUNTY, MARYLAND  
OFFICE OF THE COUNTY AUDITOR

BRIAN J. ROWE, CPA  
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MARY P. ALLEN, CPA  
DEPUTY COUNTY AUDITOR

April 24, 1998

Honorable Members of the County Council  
Honorable C.A. Dutch Ruppertsberger, III, County Executive  
Baltimore County, Maryland

Gentlemen:

We have audited the Baltimore County Volunteer Firemen's Association, Inc. (the "Association") - Length of Service Award Program (LOSAP) for the years ended June 30, 1996 and June 30, 1997.

LOSAP provides retirement benefits of \$130 per month to members of volunteer fire, ambulance and rescue companies who have attained age 60 and who have accumulated a minimum of 1,250 eligibility points (50 points per year for 25 years). Our audit disclosed that LOSAP points were not always awarded in accordance with the Baltimore County Code or with the policies established by the Board of Trustees. Our audit also disclosed various internal control weaknesses in the areas of benefit payments, cash receipts and deposits.

The Association's responses to our findings and recommendations are included as an appendix to this report.

Our audit reports and responses thereto are available to the public and may be obtained by contacting the Office of the County Auditor, Courthouse, 400 Washington Avenue, Towson, Maryland, 21204.

We wish to express our appreciation to the Association's management and to the Board of Trustees for the cooperation and assistance extended to us during our audit.

Respectively submitted,

A handwritten signature in black ink, appearing to read "Brian J. Rowe".

Brian J. Rowe, CPA  
County Auditor

A handwritten signature in black ink, appearing to read "Lauren M. Smelkinson".

Lauren M. Smelkinson, CPA  
Audit Manager

## **Background Information**

Title 16, Fire Protection, of the Baltimore County Code, established the Volunteer Length of Service Award Program (LOSAP). LOSAP provides retirement benefits to eligible members of certain volunteer fire, ambulance and rescue companies (i.e., active member companies in good standing with the Baltimore County Volunteer Firemen's Association, Inc. (the "Association"). LOSAP is managed by an independently elected six-member Board of Trustees (the "Board") which reports directly to the Association. LOSAP is administered in accordance with the Baltimore County Code, the Board's Policies and Procedures Manual and the Association's Constitution and By-laws.

In order to be eligible for LOSAP benefits, a member must be 60 years of age and must have volunteered at a Baltimore County volunteer fire, ambulance or rescue company for at least 25 years and earned at least 50 points in each year for certain prescribed volunteer fire, ambulance or rescue company activities (e.g., meetings, training, drills, responding to calls).

In accordance with Title 16 of the Baltimore County Code, the County provides funding for LOSAP sufficient to pay at least \$100 per month for life to eligible participants and related administrative expenses. Effective July 1, 1995, the monthly benefit was increased to \$120 per month and effective July 1, 1996, the monthly benefit was increased to \$130 per month. Funds appropriated to LOSAP totaled \$256,900 and \$288,560 for Fiscal Years 1996 and 1997, respectively. As of June 30, 1997, there were 167 LOSAP recipients.

## **Findings and Recommendations**

### **Point System**

- 1. LOSAP points were not always awarded in accordance with the Baltimore County Code or with Board Policies.**

As previously commented, a member must accumulate at least 50 points per year for a minimum of 25 years of creditable service in order to be eligible for LOSAP benefits. Points are earned for attending meetings, participating in drills, completing training, responding to

emergencies and other related activities. However, our review of the policies and procedures for four fire companies disclosed that points were not always awarded in accordance with the Baltimore County Code or with Board policies. Specifically, we noted the following:

- Section 16-84(5) of the Baltimore County Code provides that “in computing points for volunteer members who also serve as paid employees of the county, LOSAP points shall not be given for those duties performed during the scope and course of a member’s employment as a paid employee of the county.” However, one fire company advised that it routinely awarded points to volunteers who were also Baltimore County paid fire employees for attending training that was provided within the scope and course of the members’ employment.
- The Board’s policies provide that members may be awarded points for attendance at company meetings. However, one fire company advised that it routinely awarded points to members for scheduled company meetings even though the members were excused from the meetings to attend other activities (e.g., training) scheduled at the same time and for which they also were awarded points. Consequently, these members were awarded points for activities they did not actually attend.

**We recommend that the Board establish procedures to ensure that points are awarded in accordance with the Baltimore County Code and with Board policies.**

## **Benefit Payments**

### **2. Procedures for controlling benefit payments to eligible members were inadequate.**

The Board’s procedures require periodic random verification of check endorsements to ensure that benefit payments are only made to eligible recipients. However, this procedure was ineffective since financial institutions do not require endorsements on all deposit transactions (e.g., “For Deposit Only”). Further, we noted that the above verification procedures were not performed with any regularity to be effective. Consequently, there was a lack of assurance that benefit payments were only made to eligible recipients.

**We recommend that the Board establish procedures to more effectively verify that benefit payments are only made to eligible members. In this regard, the Baltimore**

**County Office of Finance performs annual death matches with State and Federal vital records to ensure that retirement benefit payments are only made to eligible retirees. Such procedures could also be performed for recipients under the Volunteer Length of Service Award Program.**

### **Cash Receipts and Deposits**

- 3. Cash receipts were not deposited timely and were not fully collateralized or insured.**

During Fiscal Years 1996 and 1997, the Board's cash receipts totaled \$256,900 and \$288,560, respectively. Our review disclosed that these receipts were not deposited in a timely manner and were not fully collateralized or insured. Specifically, we noted that these receipts, which ranged from \$59,100 to \$100,000, remained undeposited from 13 to 36 days. Proper internal control procedures require that all receipts be deposited promptly (e.g., same or next business day). Further, we noted that bank deposits which exceeded FDIC insurance limits by as much as \$23,062, were not properly collateralized for periods ranging from 18 to 180 days.

**To improve internal control, we recommend that all receipts be deposited promptly. We further recommend that all bank deposits be properly collateralized or insured. We advised the Board as to the proper procedures for collateralizing and insuring LOSAP funds.**

## **Audit Scope, Objectives and Methodology**

We audited the Baltimore County Volunteer Firemen's Association, Inc. (the "Association") - Length of Service Award Program (LOSAP) for the years ended June 30, 1996 and June 30, 1997. The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by §311 of the Baltimore County Charter, the objectives of this audit were to examine LOSAP's financial transactions, records and internal controls, and to evaluate its compliance with applicable laws, rules and regulations. In planning and conducting our audit, we focused on the major financial related areas of operations based on assessments of materiality and risk.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observations of LOSAP operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives.

The management of the Association and the LOSAP Board of Trustees (the "Board") are responsible for establishing and maintaining an internal control structure. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded and that transactions are processed and properly recorded in accordance with management's authorization. Because of inherent limitations in any internal control structure, errors or fraud may nevertheless occur and not be detected. Management is also responsible for compliance with applicable laws, rules and regulations.

Our reports are designed to assist the Baltimore County Council in exercising its legislative oversight function and to provide constructive recommendations for improving County operations. As a result, our reports generally do not address activities that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of the internal control structure that could adversely affect the Association and the Board's ability to safeguard LOSAP assets or properly record authorized transactions. Our report also includes findings regarding significant instances of noncompliance

with applicable laws, rules or regulations.

Appendix

Agency Response  
to  
Audit Report



# The BALTIMORE COUNTY VOLUNTEER FIREMEN'S ASSOCIATION

Public Safety Building  
700 East Joppa Road  
Towson, MD 21286-5500

Mail Stop 1102-F  
Phone (410) 887-4885  
Fax (410) 887-4852

April 17, 1998

Mr. Brian J. Rowe, CPA  
County Auditor  
Baltimore County, Maryland  
Courthouse, Room 221  
Towson, MD 21204

**RE: Length of Service Award Program  
Audit Response**

Dear Mr. Rowe:

The Length of Service Award Program Board, the Vice President of Finance, and I have had an opportunity to review the draft of your final audit report which will be forwarded to County Executive Ruppertsberger and the County Council next week. Attached you will find our comments to the report.

We realize that the implementation of procedures for a compliance audit are quite difficult. It was our understanding that our audit was the first program to be audited in this manner, and that all areas of County Government would be subject to this type of audit in the future. We have recently been advised by your staff that this plan has been abandoned. We feel that it would be beneficial to know the procedures which will apply for the future audits prior to their commencement. We would like to have a preaudit meeting scheduled to include Mr. McClean and myself, as was the procedure in the past.

We would also like to request that your office communicate with Jack McClean or me unless we refer your staff to other representatives of the Association.

If you have any questions concerning our comments about the report, please contact Jack McClean at 410-285-9309.

Yours truly,

James D. Cahn, President

Baltimore County Volunteer Firemen's Association

JDC:vlp

Attachment

c: John W. McClean

Vice Pres. - Finance--BCVFA



# The BALTIMORE COUNTY VOLUNTEER FIREMEN'S ASSOCIATION

Public Safety Building  
700 East Joppa Road  
Towson, MD 21286-5500

Mail Stop 1102-F  
Phone (410) 887-4885  
Fax (410) 887-4852

***THIS RESPONSE TO THE LENGTH OF SERVICE AWARD PROGRAM AUDIT DATED APRIL, 1998 IS PRESENTED HEREWITH UNDER THE SAME HEADINGS AS THE REPORT.***

## **BACKGROUND INFORMATION**

As a part of the historical information, the Length of Service Award Programs (LOSAP) is referred to as a retirement program, which it is not. LOSAP is a recruitment and retention program. It is important from a legal perspective that this distinction be understood.

## **FINDINGS AND RECOMMENDATIONS**

### **POINT SYSTEM**

- 1. LOSAP points were not always awarded in accordance with Baltimore County Code or with Board Policies.***

The report questions the awarding of points to members pursuing activities while engaging in their position as an employee of the Baltimore County Fire Department. This section also questions the awarding of points to members for two activities which are in progress simultaneously (i.e., excused from a company meeting to attend training and receiving points for both activities).

Member companies have been reminded repeatedly that the practice of awarding points as stated above is not permissible pursuant to the rules of LOSAP. The Board will immediately issue a memo to all companies reminding them of the rules. The Board will also review the Policies and Procedures Manual and reinforce the emphasis on the correct procedures to be followed in awarding points in these situations. Beginning in the first quarter of 1999, the Board will reinstitute the annual program update and training session for company Presidents and LOSAP Chairpersons.

### **BENEFIT PAYMENTS**

- 2. Procedures for controlling benefit payments to eligible members were inadequate.***

The report implies that the LOSAP Board does not verify check endorsements as stated in the program procedures. In the past, the Board has performed a verification twice annually. We agree that this is not a fail safe system. The Treasurer now inspects each check as a part of the monthly account reconciliation process. Form letters for various endorsement

deficiencies have been designed and are mailed to the benefit recipient by the Treasurer. The Board is investigating the use of direct deposit banking for the payment of benefits; however, the opportunity for payment of benefits to a deceased member is increased in the use of this program.

The report recommends that the Board establish procedures to more effectively verify that benefit payments are only made to eligible members. Discussions with the audit staff indicate that the concern is that payments are made to deceased members. Even though current procedures are not always followed in their entirety, the current network of information flow is extremely accurate and timely. During the more than sixteen year history of the program, there have been only two checks sent to deceased program recipients. The audit staff suggests that we participate in the annual death match with the State and Federal vital records with the Office of Finance. We believe that this is a very good idea, but only as a supplement to our existing information network. An Annual Match process is insufficient to improve the performance of the program and could increase the error rate and financial exposure of the program.

### **CASH RECEIPTS AND DEPOSITS**

#### ***3. Cash receipts were not deposited timely and were not fully collateralized or insured.***

The auditor is correct in noting that funds transfer checks from Baltimore County to the LOSAP accounts should be deposited in a timely manner; however, those responsible for selecting depositories for funds are not always readily available since they have full-time employment outside the Association. It should be noted that Baltimore County earns interest on the funds until the transfer checks are deposited and cleared through the collection process. Perhaps the wire transfer of funds would be a more efficient means of transferring funds.

The report also notes that on several occasions depository account balances were in excess of the insured limit of \$100,000 without collateralization for relatively short periods of time. Because of anticipated near term disbursements, we believe that this was an acceptable business risk; however, we have established a Legg Mason Government Money Market Account to hold LOSAP funds to rectify this situation.

### **AUDIT SCOPE, OBJECTIVES AND METHODOLOGY**

The report states, "we audited the Baltimore Volunteer Firemen's Association, Inc. (the "Association")—Length of Service Award Program (L.O.S.A.P.) for the years ended June 30, 1996 and June 30, 1997." It should be noted that the audit team requested and received records and documentation since the initiation of the program more than fifteen years ago.

The report also states that the audit was focused on major financial areas of operation. We were advised that this was a compliance audit which concentrated on policies, procedures, rules and regulations, and legislative enactments. Every detail of the program, including record keeping of selected individual companies, was examined. The broadest possible scope of examination was employed in the review, and we believe that the report indicates that the program is being soundly managed.