



**ROYERSFORD FIREMEN'S RELIEF ASSOCIATION  
MONTGOMERY COUNTY  
COMPLIANCE AUDIT REPORT  
FOR THE PERIOD  
JANUARY 1, 2010 TO DECEMBER 31, 2011**

**RELEASED DECEMBER 2013**

**COMMONWEALTH OF PENNSYLVANIA**  
**EUGENE A. DEPASQUALE - AUDITOR GENERAL**  
**DEPARTMENT OF THE AUDITOR GENERAL**





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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Mr. Craig R. Keffer, President  
ROYERSFORD VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Montgomery County

We have conducted a compliance audit of the Royersford 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, 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, 2010 to December 31, 2011.

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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was to determine if the volunteer firefighters' relief association received state aid 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Royersford Volunteer Firefighters' 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. 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 objective, and assessed whether those significant controls were properly designed

and implemented. Our audit procedures also included tests of documentary evidence supporting the Royersford Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Royersford Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. 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 objective.

The results of our audit, for the period January 1, 2010 to December 31, 2011, found the Royersford Volunteer Firefighters' Relief Association, in all significant respects, received state aid and expended state aid and accumulated relief 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 Royersford Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$75,973 and an investment balance with a fair value of \$74,910.

Finding No. 1 – Inadequate Relief Association Bylaws

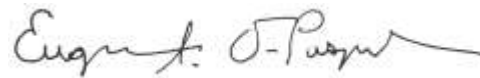
Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 3 – Failure to Secure Ownership Interest in Jointly Purchased Equipment

Finding No. 4 – Failure to Maintain a Complete and Accurate Membership Roster

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

May 24, 2013



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 Royersford Firemen's Relief Association, herein referred to as Royersford 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 118 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 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 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 Royersford Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>
Royersford Borough	Montgomery	\$27,580	\$46,837

BACKGROUND (Continued)

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

Humane Steam Fire Engine Company No. 1  
Friendship Hook, Ladder and Hose Fire Company

ROYERSFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the Royersford Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not address that members must be volunteers.

In addition, the bylaws require the bonding of the President and the Treasurer; however, currently only the Treasurer is bonded.

Furthermore, the relief association did not formally define discretionary benefits that are being offered to its members. During the current audit period, the relief association paid death benefits to one member of the relief association. Although these expenditures are authorized by Act 118, the types, amounts, and criteria to be met before receiving the benefits are not described in a formal policy approved by the association membership.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(1&4) states, the relief association's bylaws should include the following provisions:

- (1) Specify the requirements for securing membership, voting rights of different classes of members, if there be different classes, and conditions under which membership may be terminated.
- (4) Require that the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against funds of the association.

In addition, Act 118 at 35 Pa.C.S. § 7413(3) states, funds shall be available:

- (3) For payment, either by insurance or by operation of a beneficial fund, of a sum certain to designated beneficiaries of a participating member following the death of a member for any cause and **to establish criteria which members must meet in order to qualify** as participants in a death benefit fund (emphasis added).



ROYERSFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 1 – (Continued)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, or any other type of discretionary benefit provided by Act 118, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well.

Cause: Relief association officials were unaware of the specific bylaw stipulations established by Act 118 and did not perceive the formal approval to be an essential internal control in safeguarding relief association assets. As a result, they failed to establish procedures to formally define the benefits and related criteria for the benefits offered to members.

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. In addition, the relief association's failure to formally define discretionary benefits prevents the members from being aware of the types and amounts of benefits offered through membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the association.

Recommendation: We recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 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.

ROYERSFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$75,000; however, as of December 31, 2011, the relief association's cash assets totaled \$75,973.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: Relief association officials failed to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

Effect: As a result of the authorized disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. Relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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.

ROYERSFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Failure to Secure Ownership Interest in Jointly Purchased Equipment

Condition: On June 27, 2007, the relief association expended \$8,962 for the purpose of jointly purchasing 38 airpacks with the affiliated fire companies. However, the relief association failed to adequately secure its ownership interest in this jointly purchased equipment with a formal written agreement.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) 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), [FN1] 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 airpacks 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 airpacks, in the event the airpacks is ever sold.

Cause: Relief association officials failed to adequately secure its proportional ownership interest in the jointly purchased airpacks.

Effect: Failure to adequately secure the proportional share of ownership interest in the jointly purchased airpacks places the relief association's ownership interest at greater risk.

Recommendation: We recommend the relief association execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased airpacks as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the airpacks is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$8,962. 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.

ROYERSFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 4 – Failure to Maintain a Complete and Accurate Membership Roster

Condition: The relief association officials failed to maintain a complete and accurate roster of all relief association members. Specifically, the relief association provided a membership roster containing members of only one of the two affiliated fire companies.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member;
- Members' mailing addresses;
- Dates of births;
- Dates of memberships; and
- Membership classifications.

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials were unaware that they should maintain a comprehensive roster of all relief association members.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

ROYERSFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2010 TO DECEMBER 31, 2011

Act 118 at 35 Pa.C.S. § 7412 states: 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. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 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.

Furthermore, 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	\$ 20,083
Death benefits	1,500
Total Benefit Services	\$ 21,583
Fire Services:	
Equipment purchased	\$ 10,643
Equipment maintenance	14,009
Training expenses	3,163
Total Fire Services	\$ 27,815
Administrative Services:	
Other administrative expenses	\$ 164
Total Administrative Services	\$ 164

ROYERSFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Royersford Volunteer Firefighters' Relief Association Governing Body:

Mr. Craig R. Keffer, President

Mr. Gary Wezel, Vice President

Ms. Kelly Panetta, Secretary

Mr. Thomas Dimmerling, Treasurer

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

Mr. Michael A. Leonard, Secretary  
Royersford Borough

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).