



**FIREFIGHTERS' RELIEF ASSOCIATION OF UNION
FIRE COMPANY NO. 1 KULTOWN, PENNSYLVANIA**

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO AUGUST 1, 2011

RELEASED JANUARY 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Robert Erb, President
UNION TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Berks County

We have conducted a compliance audit of the former Union 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, 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, 2009 to August 1, 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 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 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 objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the former Union Township 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 objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the former Union 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 Union Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of August 1, 2011, 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, 2009 to August 1, 2011, found the former Union Township Volunteer Firefighters' Relief Association took appropriate corrective action to address the finding contained in our prior audit report and, 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 finding listed below and discussed later in this report. The results of our tests also indicated the Union Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of August 1, 2011, the Union Township and Birdsboro Firefighters' Relief Associations merged to create, by transfer of assets and liabilities, the newly formed Birdsboro Union Volunteer Firefighters' Relief Association. On the merger date, Union Township Volunteer Firefighters' Relief Association transferred \$7,689 of remaining monetary assets to the Birdsboro Union Volunteer Firefighters' Relief Association.

Finding – Inadequate Internal Controls

The contents of this report were discussed with the management of the former Union Township Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

May 16, 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 Firefighters' Relief Association of Union Fire Company No. 1 Kulptown, Pennsylvania, herein referred to as Union 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 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 Union Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Union Township	Berks	\$24,282	*	*

BACKGROUND (Continued)

*On August 1, 2011, the former Union Township Volunteer Firefighters' Relief Association merged with Birdsboro Volunteer Firefighters' Relief Association to create, by transferring of assets and liabilities, the newly formed Birdsboro Union Relief Association.

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

Union Fire Company No. 1, Kulptown, Pa

UNION TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Union Township Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Inadequate Minutes of Meetings

By maintaining detailed minutes of all association meetings.

UNION TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Inadequate Internal Controls

Condition: The relief association failed to establish adequate internal controls. The following material internal control weaknesses existed during the audit period:

- Officers' bond coverage expired on October 26, 2010;
- Relief association officials did not provide an equipment roster;
- Ledgers were only maintained up to November 10, 2009;
- Journals were only maintained up to June 9, 2010;
- All voided checks were not maintained;
- All checking account statements were not maintained;
- Bank reconciliations were not performed; and
- Periodic physical inventories of equipment owned were not performed.

The relief association merged with Birdsboro Union Volunteer Firefighters' Relief Association effective August 1, 2011.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

.... must provide for maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, Article V, Section 6, of the relief association's bylaws states, in part:

- The treasurer shall maintain relief association financial records in an orderly and businesslike manner and present all records requested by representatives of the Department of the Auditor General, and
- The treasurer shall keep a ledger which details all financial transactions of the association, and shall maintain all documentation supporting the receipts and disbursements made by the association.

In addition, Article X, Section 1, of the relief association's bylaws states, in part:

- The association shall maintain an officer's bond on the Treasurer. The amount of the bond shall be for at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year.

UNION TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding – (Continued)

Furthermore, prudent business practice dictates that:

- Bond coverage be provided up to the merger date;
- An equipment roster be maintained to track relief association assets;
- Voided checks be maintained to prevent reuse;
- Monthly bank reconciliations should be performed; and
- Periodic physical inventories of equipment owned.

Cause: The former relief association failed to establish adequate internal controls to ensure the propriety of expenditures and proper documentation of relief association transactions, and were unaware of the relief association's ineffective internal control system.

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets and prevented the verification as to whether relief association business was presented before the membership for discussion and approval. Furthermore, the lack of effective internal controls places the relief association funds at greater risk for misappropriation.

Recommendation: As a result of this merger, we are making our recommendation to Birdsboro Union Volunteer Firefighters' Relief Association. We recommend the Birdsboro Union Volunteer Relief Association officials adopt internal control procedures which will require the following:

- Maintain officers' bond coverage;
- Maintain a cumulative equipment roster of all relief owned equipment;
- Maintain ledgers;
- Maintain journals;
- Maintain all voided checks;
- Maintain all bank statements;
- Monthly bank reconciliations should be performed; and
- Periodic physical inspections of equipment owned.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION.

Management's Response: Union Township Volunteer Firefighters' 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.

UNION TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO AUGUST 1, 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	\$ 2,848
Total Benefit Services	\$ 2,848
Fire Services:	
Equipment purchased	\$ 55,821
Equipment maintenance	13,758
Training expenses	18,950
Total Fire Services	\$ 88,529
Administrative Services:	
Other administrative expenses	\$ 697
Total Administrative Services	\$ 697
Other Expenditures:	
Transfer of monetary assets*	\$ 7,689
Total Other Expenditures	\$ 7,689

UNION TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION (Continued)

*Transfer of Monetary Assets

On June 6, 2010, the membership of the Union Township Volunteer Firefighters' Relief Association voted to approve a merger with Birdsboro Volunteer Firefighters' Relief Association to create, by the transfer of assets and liabilities, Birdsboro Union Volunteer Firefighters' Relief Association. On August 1, 2011, the former Union Township and Birdsboro Volunteer Firefighters' Relief Associations completed the merger by transferring ownership of its equipment inventory and monetary assets to the newly created Birdsboro Union Volunteer Firefighters' Relief Association.

UNION TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Union Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Robert Erb, President

Mr. Dustin Rhoades, Secretary

Birdsboro Union Volunteer Firefighters' Relief Association Governing Body:

Mr. Steven Dragon, President,

Mr. Barry Katzin, Vice President

Mr. J. Aidan Bicer, Secretary

Mr. Kenneth Long, Treasurer

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

Mr. Carol R. Lewis, Secretary
Union Township

This report is a matter of public record and is available online at 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.