

# COMPLIANCE AUDIT

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## Sharon Hill Volunteer Fire Fighters Relief Association of Sharon Hill, Pa.

Delaware County

For the Period

January 1, 2011 to December 31, 2014

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November 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Michael Galli, President  
SHARON HILL VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Delaware County

We have conducted a compliance audit of the Sharon Hill 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, 2011 to December 31, 2014.

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.
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 Sharon Hill 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. Volunteer firefighters' 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 objectives. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain an independent confirmation of the cash balance directly from the financial institution. Therefore, while the Sharon Hill Volunteer Firefighters' Relief Association provided bank statements that indicated that, as of December 31, 2014, the volunteer firefighters' relief association had a cash balance of \$32,289, we were not able to verify this cash balance.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2011 to December 31, 2014:

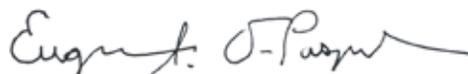
- The Sharon Hill Volunteer Firefighters' Relief Association took appropriate corrective action to address the findings contained in our prior audit report.
- The Sharon Hill Volunteer Firefighters' Relief Association, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures, except as noted in the finding listed below and discussed later in this report.

Finding – Failure To Secure Ownership in Jointly Purchased Equipment

- The Sharon Hill Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of January 1, 2011 to December 31, 2014, had a reported cash balance of \$32,289 and an investment balance with a fair value of \$1,188,901.

The contents of this report were discussed with the management of the Sharon Hill Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in this report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

October 15, 2015



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 Sharon Hill Volunteer Fire Fighters Relief Association of Sharon Hill, Pa., herein referred to as the Sharon Hill 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.

**BACKGROUND – (Continued)**

The Sharon Hill Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Sharon Hill Borough	Delaware	\$51,903	\$29,382	\$33,181	\$31,370

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

Sharon Hill Fire Company

Sharon Hill Fire Company Ladies Auxiliary

SHARON HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Sharon Hill Volunteer Firefighters' Relief Association has complied with the prior audit findings and recommendations, as follows:

- Inadequate Signatory Authority For The Disbursement Of Funds

By requiring more than one signature on all negotiable instruments.

- Failure To Adhere To Relief Association Bylaws

By establishing guidelines and procedures to meet the provisions contained in the relief association bylaws.

We commend the relief association management for its efforts in complying with the findings and recommendations contained in the prior audit report. The association management should strive to remain in compliance with all applicable state laws, contracts, bylaws and administrative procedures.

SHARON HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

**Finding – Failure To Secure Ownership Interest In Jointly Purchased Equipment**

Condition: On July 26, 2012, the relief association contributed \$26,869 towards a state grant for the purpose of jointly purchasing two thermal imaging cameras with the Sharon Hill Fire Company. However, the relief association did not adequately secure its ownership interest in this jointly purchased equipment as the relief association did not execute a formal written agreement that enumerates the relief association's proportional share of the jointly purchased equipment.

In addition, on September 11, 2012, the relief association contributed \$6,069 towards a regional grant for the purpose of jointly purchasing twenty-four sets of protective turnout gear with the Sharon Hill Fire Company. Again, the relief association did not adequately secure its ownership interest in this jointly purchased equipment as the relief association did not execute a formal written agreement that enumerates the relief association's proportional share of the jointly purchased equipment.

Lastly, on January 9, 2014, the relief association contributed \$5,943 towards a state grant with the Sharon Hill Fire Company for the purpose of jointly purchasing fire hoses. The relief association again failed to document its proportional ownership of the jointly purchased equipment.

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), 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 equipment 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 equipment, in the event the equipment is ever sold.

Cause: Relief association officials failed to implement internal control procedures to ensure that it adequately secures its proportional ownership interest in jointly purchased equipment.

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

SHARON HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that the relief association officials execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the equipment is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$38,881. 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 exit conference and, as a result of our audit, the relief association held a special meeting and provided agreements for the jointly purchased equipment.

Auditor's Conclusion: We reviewed documentation verifying that the relief association did execute formal written agreements with the fire company that secures the relief association's ownership interest in the jointly purchased equipment. Compliance for joint equipment purchases made during the next audit period will be subject to verification through our next audit.

SHARON HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2011 TO DECEMBER 31, 2014

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	\$ 33,284
Death benefits	1,000
Tokens of sympathy and goodwill	865
Total Benefit Services	<u>\$ 35,149</u>
Fire Services:	
Equipment purchased	\$ 111,250
Equipment maintenance	16,629
Training expenses	8,510
Fire prevention materials	1,109
Total Fire Services	<u>\$ 137,498</u>
Administrative Services:	
Other administrative expenses	<u>\$ 828</u>

SHARON HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Sharon Hill Volunteer Firefighters' Relief Association Governing Body:

Mr. Michael Galli	President
Mr. George Faulkner	Vice President
Mr. Wayne Little	Recording Secretary
Mr. Scott Fuhrman	Financial Secretary
Ms. Jennifer Orr	Treasurer

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

Mr. Steven Travers Sharon Hill Borough	Borough Manager
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This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).