

COMPLIANCE AUDIT

Ludwig's Corner Fireman's Relief Association Chester County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

December 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. David Frame, President
LUDWIG'S CORNER VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Chester County

We have conducted a compliance audit of the Ludwig's Corner 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, 2012 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 Ludwig's Corner 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.

Based on our audit procedures, we concluded that, for the period January 1, 2012 to December 31, 2014:

- The Ludwig's Corner Volunteer Firefighters' Relief Association took appropriate corrective action to address the finding contained in our prior audit report.
- The Ludwig's Corner 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.

Finding No. 1 – Unauthorized Expenditures

Finding No. 2 – Inadequate Minutes of Meetings

- The Ludwig's Corner Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2014, had a cash balance of \$129,578 and an investment balance with a fair value of \$458,556.

The contents of this report were discussed with the management of the Ludwig's Corner Volunteer Firefighters' 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.

November 17, 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 Ludwig's Corner Fireman's Relief Association, herein referred to as the Ludwig's Corner 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 Ludwig’s Corner Volunteer Firefighters’ Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
East Nantmeal Township	Chester	\$11,141	\$12,351	\$11,448
Upper Uwchlan Township	Chester	\$47,974	\$53,423	\$51,191
West Vincent Township	Chester	\$28,876	\$32,716	\$30,918

The volunteer firefighters’ relief association and the affiliated fire service organization are separate, legal entities. The Ludwig’s Corner Volunteer Firefighters’ Relief Association is affiliated with the following fire service organization:

Ludwig's Corner Fire Company #1

LUDWIG'S CORNER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Ludwig's Corner Volunteer Firefighters' Relief Association has complied with the prior audit finding and recommendation, as follows:

- Undocumented Expenditures

By receiving reimbursement of \$31,009 from the affiliated fire company for the undocumented expenditures that were made in the prior audit period.

LUDWIG'S CORNER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditure

Condition: The relief association expended \$14,540 for an insurance premium that covers fire company assets during the current audit period that is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(2, 4, 12) states:

The funds of any volunteer firefighters' relief association may be spent:

To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of the member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

To pay in full or in part for damage or loss in any of the categories mentioned in paragraph (2) in a specific case where: (i) no policy of insurance is in force covering the risk; or (ii) the amount payable under insurance policies in force is inadequate to cover the loss.

To secure insurance against legal liability of the volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or performing their duties as special fire police.

Costs associated with insurance premiums covering the fire company assets do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the expenditure for the fire company insurance premium was not authorized by Act 118.

LUDWIG'S CORNER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

Recommendation: We recommend that the relief association be reimbursed \$14,540 for the unauthorized expenditure and that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of future expenditures. 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 \$14,540 for the unauthorized expenditure on August 21, 2015

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$14,540 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Inadequate Minutes Of Meetings and Failure To Adhere To Relief Association Bylaws

Condition: The relief association failed to maintain detailed minutes of meetings as required by Act 118. The bylaws of the relief association, Article IV, Section 1, states in part... "The regular scheduled monthly meetings of the relief association shall be held following the company meeting, on the third Thursday of every month." However, during the current audit period, the relief association held only 16 out of 36 required meetings. Furthermore, the meeting minutes that were provided did not address all of the financial-related transactions that occurred during the audit period.

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

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

Furthermore, prudent business practices dictate that the relief association should adhere to all provisions stipulated in the relief association's bylaws to ensure that the relief association conducts its affairs with proper authorization.

LUDWIG'S CORNER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials indicated that they were unaware of the meeting guidelines established by the relief association bylaws and that maintaining detailed minutes of meetings was required by Act 118.

Effect: Without detailed minutes of meetings, evidence does not exist that relief association business was conducted in accordance with the relief association bylaws and presented before the membership for approval.

Recommendation: We recommend that the relief association officials maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association and adhere to Article IV, Section 1 of the relief association bylaws. 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.

LUDWIG'S CORNER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2012 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	\$ 53,064
Relief benefits	6,645
Total Benefit Services	\$ 59,709
Fire Services:	
Equipment purchased	\$ 138,824
Equipment maintenance	34,853
Training expenses	7,196
Fire prevention materials	1,981
Total Fire Services	\$ 182,854
Administrative Services:	
Officers' bond	\$ 310
Other administrative expenses	12,150
Total Administrative Services	\$ 12,460
Total Investments Purchased	\$ 100,000
Other Expenditures:	
Unauthorized Expenditures	\$ 14,540

LUDWIG'S CORNER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ludwig's Corner Volunteer Firefighters' Relief Association Governing Body:

Mr. David Frame	President
Mr. Parker Loomis	Vice President
Ms. Jane Raser	Secretary
Mr. Richard Guth	Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report:

Ms. Kathleen Brumfield East Nantmeal Township	Secretary
Ms. Gwen Jonik Upper Uwchlan Township	Secretary
Ms. Tammy Swavely West Vincent Township	Secretary

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.