

# COMPLIANCE AUDIT

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## Liberty Firemen's Relief Association

Berks County, Pennsylvania

For the Period

January 1, 2014 to February 5, 2015

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October 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Matthew Rothermel, President  
LIBERTY VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Berks County

We have conducted a compliance audit of the Liberty 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, 2014 to February 5, 2015.

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 Liberty 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, 2014 to February 5, 2015:

- The Liberty Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the three findings contained in our prior audit report. However, the Liberty Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- The Liberty 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 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings

Finding No. 3 – Improper Merger

- The Liberty Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of February 5, 2015, had a cash balance of \$0 and no investments.

The contents of this report were discussed with the management of the Liberty 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.

August 12, 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 Liberty Firemen's Relief Association, herein referred to as the Liberty Volunteer Firefighters' Relief Association, was 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 Liberty Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2014</u>
Colebrookdale Township	Berks	\$37,186

As of February 5, 2015, the Liberty Volunteer Firefighters’ Relief Association, Berks County, dissolved its organization and transferred all of its monetary assets to the Boyertown Volunteer Firefighters’ Relief Association, Berks County.

The former Liberty Volunteer Firefighters’ Relief Association and the affiliated fire service organization were separate, legal entities. The Liberty Volunteer Firefighters’ Relief Association was affiliated with the following fire service organization:

Liberty Fire Company

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Liberty Volunteer Firefighters' Relief Association has complied with one of the three prior audit findings and recommendations, as follows:

- Undocumented Expenditures

By receiving reimbursement of \$2,712 from the affiliated fire company and invoices for \$503 for the undocumented expenditures that were made in the prior audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Liberty Volunteer Firefighters' Relief Association has not complied with two of the three prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Insufficient Surety (Fidelity) Bond Coverage

- Inadequate Minutes Of Meetings

We are concerned by the relief association's failure to correct those previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage**

Condition: As cited in our prior audit report, the relief association did not 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 \$80,000; however, as of February 5, 2015, upon transfer of assets to the Boyertown Firefighter's Relief Association, the relief association's cash assets totaled \$134,726.

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: Even though notified of this condition during our prior audit, relief association officials again neglected 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: Due to the dissolution of the Liberty Volunteer Firefighters' Relief Association, we are providing officials of the Boyertown Volunteer Firefighters' Relief Association copies of this report so that they are aware of the conditions that were detected in the operations of the Liberty Volunteer Firefighters' Relief Association during the course of our audit. We recommend that Boyertown Volunteer Firefighters' Relief Association officials continue to monitor their cash balance to ensure that unexpected events affecting the relief association's current funds do not 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.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference.

Auditor's Conclusion: Compliance will be subject to verification through our next audit of the Boyertown Volunteer Firefighters' Relief Association.

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings**

Condition: As cited in our prior audit report, the relief association again failed to maintain detailed minutes of meetings as required by Act 118. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period, including whether or not the merger with the Boyertown Volunteer Firefighters' Relief Association was presented before the membership for approval.

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.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to maintain detailed minutes of meetings as required by Act 118.

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

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Recommendation: Due to the dissolution of the Liberty Volunteer Firefighters' Relief Association, we are providing officials of the Boyertown Volunteer Firefighters' Relief Association copies of this report so that they are aware of the conditions that were detected in the operations of the Liberty Volunteer Firefighters' Relief Association during the course of our audit. We recommend that Boyertown Volunteer Firefighters' Relief Association officials continue to maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit of the Boyertown Volunteer Firefighters' Relief Association.

**Finding No. 3 – Improper Merger**

Condition: The relief association failed to properly dissolve the relief association and transfer all assets to the Boyertown Volunteer Firefighters' Relief Association. While the relief association did transfer all financial accounts, they failed to complete the merger as follows:

- The relief association did not transfer all equipment agreements held with the affiliated fire company to the Boyertown Volunteer Firefighters' Relief Association
- Vehicle titles held by the relief association were not transferred to the Boyertown Volunteer Firefighters' Relief Association.
- The relief association did not document merger plans with membership in the meeting minutes.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 (Continued)**

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states:

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it 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.

In addition, an adequate system of record-keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials neglected to take the appropriate actions to properly dissolve their relief association and transfer all assets to the Boyertown Volunteer Firefighters' Relief Association.

Effect: As a result of the relief association not properly addressing all procedures to officially dissolve their association, equipment agreements and vehicle titles were not transferred to the Boyertown Volunteer Firefighters' Relief Association. Furthermore, it is not known whether or not the membership of the relief association was made aware of or approved the merger with the Boyertown Volunteer Firefighters' Relief Association.

Recommendation: Due to the dissolution of the Liberty Volunteer Firefighters' Relief Association, we are providing officials of the Boyertown Volunteer Firefighters' Relief Association copies of this report so that they are aware of the conditions that were detected in the operations of the Liberty Volunteer Firefighters' Relief Association during the course of our audit. We recommend that Liberty Volunteer Firefighters' Relief Association officials immediately transfer all equipment agreements and vehicle titles over to the Boyertown Volunteer Firefighters' 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit of the Boyertown Volunteer Firefighters' Relief Association.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2014 TO FEBRUARY 5, 2015

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:

Fire Services:		
Equipment purchased	\$	3,089
Equipment maintenance		4,648
Training expenses		3,409
Total Fire Services	\$	11,146
Transfer of Assets*	\$	134,726

\*As of February 5, 2015, the Liberty Volunteer Firefighters' Relief Association dissolved its organization and transferred all of its monetary assets to the Boyertown Volunteer Firefighters' Relief Association.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Liberty Volunteer Firefighters' Relief Association Governing Body:

Mr. Matthew Rothermel	President
Mr. Steven Yerger	Vice President
Mr. Robert Hess	Secretary
Ms. Kimberly Shainline	Treasurer
Ms. Bonnie Haring	Assistant Treasurer

Boyertown Volunteer Firefighters' Relief Association Governing Body:

Mr. Lester Ritter	President
Mr. Matthew Rothermel	Vice President
Ms. Kimberly Shainline	Secretary
Mr. Charles Neubauer	Treasurer

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

Ms. Jeannie DiSante Colebrookdale Township	Secretary
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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).