

COMPLIANCE AUDIT

Croydon Volunteer Fire Company Relief Association of Croydon, Bucks County, Pennsylvania

For the Period
January 1, 2013 to December 31, 2015

September 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. James T. Vaughn, President
Croydon Volunteer Fire Company Relief Association Of Croydon,
Bucks County, Pennsylvania

We have conducted a compliance audit of the Croydon Volunteer Fire Company Relief Association Of Croydon, Bucks County, Pennsylvania (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, 2013 to December 31, 2015.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding contained in our prior audit report.
2. To determine if the 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.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the 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. 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 conclude that, for the period January 1, 2013 to December 31, 2015:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- Because of the significance of the matter described in the finding below and discussed later in this report, the relief association did not, in all significant respects, receive state aid and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding – Inappropriate Payments On Lease-Purchase Agreements

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with the management of the relief association. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.



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 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 volunteer firefighters' relief associations. The relief association's bylaws define the specific operational procedures by which the 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 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 that is or are recognized as providing the service to the municipality.

BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Bristol Township	Bucks	\$76,671	\$72,657	\$69,020

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The relief association is affiliated with the following fire service organization:

Croydon Fire Company No. 1

CROYDON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF CROYDON,
BUCKS COUNTY, PENNSYLVANIA
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

CROYDON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF CROYDON,
BUCKS COUNTY, PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – Inappropriate Payments On Lease-Purchase Agreements

Condition: During the current audit period, the relief association made payments totaling \$33,119 under three separate lease-purchase agreements to finance the purchase of two vehicles and a new ventilation system; however, the lessee named on these agreements was the Fire Company rather than the relief association. The first payment of a five year financing agreement in the amount of \$6,190 was made towards a vehicle classified as Chief II (a 2014 Ford Utility Interceptor). In addition, another payment, also the first of a five year financing agreement in the amount of \$6,190, was made towards a second vehicle classified as Battalion II (also a 2014 Ford Utility Interceptor). Lastly, two payments totaling \$20,739 were made towards the purchase of a ventilation system. The lease purchase agreements for the two vehicle were originally executed on April 21, 2014 and the ventilation system on March 10, 2014 and were in the name of the relief association as lessee. However, on May 7, 2014, all three lease purchase agreements were modified by signed addendums executed to change the name of the lessee from the relief association to the Fire Company.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(11) states:

Funds of any volunteer firefighters' relief association may be spent:

To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

In addition, prudent business practice dictates that the relief association maintain ownership of all equipment purchased by the relief association in order to provide protection over all relief association assets.

Cause: The relief association failed to establish internal control procedures which would require that all lease-purchase agreements be in the name of the relief association for financing of relief association owned equipment.

Effect: As a result of these lease-purchase agreements inappropriately naming the fire company as lessee, the relief association is deemed to be making payments on vehicles and equipment which will be owned by the fire company and not the relief association. Although payments to finance vehicles and a ventilation system are considered authorized expenditures, the relief association must be named as the lessee in the agreement to ensure that the relief association is documented as the owner of the equipment. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

CROYDON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF CROYDON,
BUCKS COUNTY, PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the relief association either (1) execute formal written agreements with the affiliated fire company that assigns all ownership rights of the equipment being financed solely by the relief association to the relief association, (2) if the fire company is assuming all future lease-purchase payments, execute formal written agreements that enumerates the relief association's proportional ownership interest in the jointly purchased vehicles and equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold or (3) that the relief association be reimbursed \$33,119 for the lease-purchase payments previously made. In addition, the relief association officials should take appropriate action to ensure that all future lease-purchase agreements financing relief association equipment are in the name of the relief association. We further recommend that relief association officials refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS, for further guidance in administering the operations of the relief association.

Management's Response: Relief association management agreed with the finding as presented and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

CROYDON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF CROYDON,
BUCKS COUNTY, PENNSYLVANIA
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by the finding contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

CROYDON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF CROYDON,
BUCKS COUNTY, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2015

Cash	<u>\$ 279,254</u>
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CROYDON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF CROYDON,
 BUCKS COUNTY, PENNSYLVANIA
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:	
Insurance premiums	\$ 40,114
Death benefits	32,500
Relief benefits	449
Total Benefit Services	\$ 73,063
Fire Services:	
Equipment purchased	\$ 77,387
Equipment maintenance	39,325
Training expenses	2,352
Total Fire Services	\$ 119,064
Administrative Services:	
Other administrative expenses	\$ 6,584
Bond premiums	500
Total Administrative Services	\$ 7,084
Other Expenditures:	
Payments on lease-financing*	\$ 33,119
Total Expenditures	\$ 232,330

*The total lease-financing payments made during the current audit period as reported on the summary of expenditures above are considered unauthorized as disclosed in the finding and recommendation contained in this report.

CROYDON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF CROYDON,
BUCKS COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Croydon Volunteer Fire Company Relief Association Of Croydon, Bucks County, Pennsylvania
Governing Body:

Mr. James T. Vaughn
President

Mr. Dave Walker
Vice President

Mr. Thomas J. Tryon
Secretary

Mr. James F. Tryon Sr.
Treasurer

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

Ms. Mary Kate Murphy
Secretary
Bristol Township

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.