



**UPPER BLACK EDDY FIRE COMPANY NO. 1
RELIEF ASSOCIATION**

BUCKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. David K. Eitemiller, President
UPPER BLACK EDDY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Bucks County

We have conducted a compliance audit of the Upper Black Eddy 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 December 31, 2012.

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 Upper Black Eddy 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 Upper Black Eddy Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Upper Black Eddy Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2012, 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.

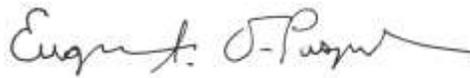
The results of our audit, for the period January 1, 2009 to December 31, 2012, found the Upper Black Eddy Volunteer Firefighters' Relief Association took appropriate corrective action to address four of the five findings contained in our prior audit report. However, the Upper Black Eddy Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Upper Black Eddy Volunteer Firefighters' Relief Association, did not in all significant respects, receive state aid and expend state aid and accumulate relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the finding listed below and discussed later in this report. Therefore, the Upper Black Eddy Volunteer Firefighters' Relief Association may be subject to the potential withhold of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report. The results of our tests also indicated the Upper Black Eddy Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$43,072 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased
Equipment

The contents of this report were discussed with the management of the Upper Black Eddy Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

January 16, 2014

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

| | <u>Page</u> |
|--|-------------|
| Background | 1 |
| Status of Prior Findings | 3 |
| Findings and Recommendations: | |
| Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures | 4 |
| Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased Equipment | 6 |
| Potential Withhold of State Aid | 8 |
| Accompanying Expenditure Information | 9 |
| Report Distribution List | 10 |

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 Upper Black Eddy Fire Company No. 1 Relief Association, herein referred to as the Upper Black Eddy 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

The Upper Black Eddy Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

| <u>Municipality</u> | <u>County</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|---------------------|---------------|-------------|-------------|-------------|-------------|
| Bridgeton Township | Bucks | \$ 14,152 | \$ 15,929 | \$ 21,893 | \$ 12,468 |
| Nockamixon Township | Bucks | \$ 2,779 | \$ 3,128 | \$ 4,759 | \$ 2,700 |
| Tinicum Township | Bucks | \$ 545 | \$ 613 | \$ 878 | \$ 498 |

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Upper Black Eddy Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Upper Black Eddy Fire Company No. 1

UPPER BLACK EDDY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Upper Black Eddy Volunteer Firefighters' Relief Association has complied with four of the five prior audit findings and recommendations, as follows:

- Duplicate Payment

By obtaining a credit memo from the equipment vendor, in the amount of \$774, from which the relief association purchased additional equipment totaling \$209 and received a check from the vendor for the difference in the amount of \$565 which was appropriately deposited into a relief association account.

- Failure To Maintain A Complete And Accurate Equipment Roster

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

- Insufficient Surety (Fidelity) Bond Coverage

By increasing the bond limit to an amount greater than the total relief association's cash assets.

- Inadequate Signatory Authority For The Disbursement Of Funds

By adopting procedures which require the signatures of at least two officers on all relief association negotiable instruments as required by Act 118.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Upper Black Eddy Volunteer Firefighters' Relief Association has not complied with one of the five prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

We are concerned with the volunteer firefighters' relief association's failure to correct the previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

UPPER BLACK EDDY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

Condition: As cited in our prior audit report, the relief association was unable to provide adequate supporting documentation for the following expenditures made in the prior audit period:

| <u>Date</u> | <u>Check No.</u> | <u>Description</u> | <u>Amount</u> |
|-------------|------------------|----------------------------------|-----------------|
| 01/10/16 | 756 | Relief association member | \$ 239 |
| 01/10/06 | 757 | Equipment vendor | 789 |
| 01/10/06 | 760 | Community college | 118 |
| 03/27/07 | 801 | Fire prevention materials vendor | 386 |
| | | | <u>\$ 1,532</u> |

In addition, the relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

| <u>Date</u> | <u>Check No.</u> | <u>Description</u> | <u>Amount</u> |
|-------------|------------------|--------------------|-----------------|
| 01/17/12 | Debit | Equipment vendor | \$ 350 |
| 05/01/12 | 901 | Equipment vendor | 2,000 |
| | | | <u>\$ 2,350</u> |

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), [FN1] 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.

UPPER BLACK EDDY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Without adequate supporting documentation, such as invoices, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, good business practice dictate that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: Even though notified of this condition during our prior audit, relief association officials again, neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

However as a result of our audit, and subsequent to the audit period, on May 8, 2013, the relief association provided documentation to support the validity of expenditures made in the prior audit period totaling \$1,532.

Recommendation: We again recommend that the relief association provide this department with adequate supporting documentation, such as invoices, to determine the validity of the remaining expenditures or that the relief association be reimbursed \$2,350 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all 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 indicated they will take action to comply with the recommendation.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

UPPER BLACK EDDY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Secure Ownership Interest in Jointly Purchased Equipment

Condition: During the current audit period, we found that the relief association failed to address two verbal observations concerning jointly purchased equipment made during our two prior audit periods. We previously disclosed to relief association officials that the relief association expended \$4,150 towards the purchase of air packs, at a cost of \$11,150, purchased jointly with the Upper Black Eddy Fire Company during 2003 but failed to obtain a written joint ownership agreement with the affiliated fire company for the proportional share of the proceeds in the event this equipment is sold. In addition, we previously disclosed that the relief association expended \$6,556 in 2006, towards the lease-purchase of radio equipment jointly owned with the affiliated fire company and financed through the County of Bucks in the total amount of \$39,350, but also failed to obtain a written joint ownership agreement covering this equipment. As such, we recommended that the relief association obtain formal, written joint ownership agreements for the aforementioned jointly purchased equipment. On September 25, 2009, the relief association and the fire company entered into an agreement in an effort to comply with our recommendation; however, the agreement provided was incomplete and did not define what equipment was being financed or covered by the agreement. We noted that the relief association made two additional lease-purchase payments during 2009 totaling \$13,200 towards this radio equipment. However, there was no further evidence of additional payments during the remainder of the audit period.

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), [FN1] 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.

UPPER BLACK EDDY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials were informed of the necessity to document the relief association's proportionate ownership interest in the equipment during the prior two audits. However, the relief association officials still have not adequately secured its proportional ownership interest in the jointly purchased equipment.

Effect: 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.

Furthermore, the relief association's continued failure to secure its proportional ownership interest in the jointly purchased equipment may lead to a total withholding of state aid, as detailed on page 8 of this report.

Recommendation: We recommend that the relief association execute formal written agreements with the affiliated 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 \$23,906. 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 upon release of the audit report and VRFA's subsequent resolution.

UPPER BLACK EDDY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this 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 volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Municipal Pensions & VFRA Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

UPPER BLACK EDDY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2012

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 | <u>\$ 24,347</u> |
| Fire Services: | |
| Equipment purchased | \$ 47,200 |
| Equipment maintenance | 7,324 |
| Training expenses | 1,163 |
| Fire prevention materials | 692 |
| Total Fire Services | <u>\$ 56,379</u> |
| Administrative Services: | |
| Other administrative expenses | <u>\$ 981</u> |
| Other Expenditures: | |
| Undocumented expenditures | <u>\$ 2,350</u> |

UPPER BLACK EDDY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Upper Black Eddy Volunteer Firefighters' Relief Association Governing Body:

| | |
|-------------------------|----------------|
| Mr. David K. Eitemiller | President |
| Mr. James A. Serfass | Vice President |
| Mr. Alex Ponikteva | Secretary |
| Ms. Maryanne Serfass | Treasurer |

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

Ms. Barbara H. Guth, Secretary
Bridgeton Township

Ms. Heather DiSario, Secretary
Nockamixon Township

Ms. Linda McNeill, Secretary
Tinicum 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.