



**LIBERTY FIRE COMPANY RELIEF ASSOCIATION OF
THE BOROUGH OF SPRING CITY, CHESTER COUNTY,
PENNSYLVANIA**

CHESTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010 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. Dan Bauman, President
LIBERTY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Chester 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, 2010 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 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. 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 Liberty Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Liberty 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, 2010 to December 31, 2012, found the Liberty Volunteer Firefighters' Relief Association took appropriate corrective action to address four of the five findings contained in our prior audit report. However, the Liberty 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 Liberty 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 Liberty Volunteer Firefighters' Relief Association will 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.

Finding – Noncompliance With Prior Audit Recommendation –
Failure to Secure Ownership Interest In Jointly Purchased
Vehicles

The results of our tests also indicated the Liberty Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$43,279 and an investment balance with a fair value of \$6,942.

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.

March 4, 2014

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

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 Fire Company Relief Association of the Borough of Spring City, Chester County, Pennsylvania, herein referred to as Liberty 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 Liberty Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
East Pikeland Township	Chester	\$7,365	\$11,890	\$6,862
East Vincent Township	Chester	\$21,414	\$40,117	\$23,839
Spring City Borough	Chester	\$20,951	\$32,623	\$18,489

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

Liberty Steam Fire Company No. 1

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure To Maintain A Complete And Accurate Equipment Roster

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

- Unauthorized Expenditures

By receiving reimbursement from Liberty Steam Fire Company No. 1 in the amount of \$3,828 for the unauthorized expenditures made in the prior audit period;

- Undocumented Expenditures

By receiving reimbursement from Liberty Steam Fire Company No. 1 in the amount of \$1,015 for the undocumented expenditures that were made in the prior audit period; and

- Failure To Maintain A Complete And Accurate Membership Roster

By maintaining a comprehensive listing of the relief association's membership.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Liberty 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 Finding and Recommendation section of this report:

- Noncompliance With Prior Audit Recommendation – Failure To Secure Ownership Interest in Jointly Purchased Vehicles.

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

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation –
Failure to Secure Ownership Interest in Jointly Purchased Vehicles

Condition: As disclosed in our prior audit report, the relief association expended \$100,000 in 2006 for the purpose of jointly purchasing a 2006 emergency fire fighting vehicle and in 2009, expended an additional \$70,242 for the purpose of jointly purchasing a 2009 special service vehicle, both with the Liberty Steam Fire Company No. 1. Although both vehicles were jointly titled in the name of the relief association and the affiliated fire company, the relief association did not adequately secure its ownership interest in these jointly purchased vehicles by entering into written agreements with the affiliated fire company specifying the relief association's financial participation percentage based upon the total cost of the equipment. The relief association paid an additional \$17,113 in principal payments towards the PEMA loan associated with the special service vehicle during the current 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 vehicle 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 vehicle, in the event the vehicle is ever sold.

Cause: Even though notified of this condition during our prior audit, relief association officials again, neglected to adequately secure its proportional ownership interest in the jointly purchased vehicle.

Effect: Continued failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicle places the relief association's ownership interest at greater risk. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We again recommend that the relief association execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$187,355. 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: 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 plan.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition of the repeat finding such as that reported in the finding 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 Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2010 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>\$ 24,972</u>
Fire Services:	
Equipment purchased	\$ 82,445
Equipment maintenance	12,334
Training expenses	6,728
Fire prevention materials	2,301
Total Fire Services	<u>\$ 103,808</u>
Administrative Services:	
Officer compensation	\$ 3,595
Other administrative expenses	874
Total Administrative Services	<u>\$ 4,469</u>
Other Expenditures:	
Principal payments on loan	\$ 34,863
Interest payments on loan	6,795
Total Other Expenditures	<u>\$ 41,659</u>

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Liberty Volunteer Firefighters' Relief Association Governing Body:

Mr. Dan Bauman	President
Mr. Gary Beam	Vice President
Mr. Eric Kern	Secretary
Mr. Glen Wisnewski	Treasurer

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

Ms. Kimberly B. Moretti East Pikeland Township	Secretary
Ms. Mary E. Flagg East Vincent Township	Secretary
Mr. Dennis Rittenhouse Spring City Borough	Secretary

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.