

COMPLIANCE AUDIT

Liberty Fire Company Relief Association of the Borough of Spring City, Chester County, Pennsylvania

For the Period
January 1, 2016 to December 31, 2017

August 2018



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. Gary Beam, President
Liberty Fire Company Relief Association
of the Borough of Spring City,
Chester County, Pennsylvania

We have conducted a compliance audit of the Liberty Fire Company Relief Association of the Borough of Spring City, Chester 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, 2016 to December 31, 2017.

The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective identified above and was not required to be and was not conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

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 objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, because of the significance of the matters described in the findings below and discussed later in this report, the relief association did not, in all significant respects, comply with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, collectively as a whole, for the period January 1, 2016 to December 31, 2017. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 3 – Failure To Maintain A Federal Tax Identification Number

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 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 1, 2018



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. Relief association bylaws define the specific operational procedures by which relief associations conduct 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 relief associations 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2016</u>	<u>2017</u>
East Pikeland Township	Chester	\$ 7,115	*
East Vincent Township	Chester	\$27,134	\$24,683
Spring City Borough	Chester	\$18,877	\$17,135

* During the current audit period, the relief association did not receive an allocation of state aid from East Pikeland Township in 2017. Municipalities have sole discretion to distribute their annual allocation of state aid received to any relief association providing fire service to the municipality.

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:

Liberty Steam Fire Company No. 1

LIBERTY FIRE COMPANY RELIEF ASSOCIATION OF THE BOROUGH OF
SPRING CITY, CHESTER COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle

Condition: On December 30, 2017, the relief association expended \$300,000 for the purpose of jointly purchasing a vehicle with the affiliated fire company. However, the relief association did not adequately secure its ownership interest in this jointly purchased vehicle as the vehicle was titled solely in the name of Liberty Steam Fire Company No. 1.

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), 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: Relief association officials failed to adequately secure its proportional ownership interest in the jointly purchased vehicle.

Effect: The 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.

Recommendation: We recommend that the relief association officials 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 \$300,000. 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.

LIBERTY FIRE COMPANY RELIEF ASSOCIATION OF THE BOROUGH OF
SPRING CITY, CHESTER COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

Condition: 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 \$150,000; however, as of December 31, 2017, the relief association’s cash assets totaled \$152,096.

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: Relief association officials failed 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: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association’s authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association’s authorized disbursing officer to an amount greater than the expected maximum balance of the relief association’s cash assets, or by decreasing the relief association’s cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association’s cash balance to ensure that unexpected events affecting the relief association’s current funds do not again 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 FIRE COMPANY RELIEF ASSOCIATION OF THE BOROUGH OF
SPRING CITY, CHESTER COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

Finding No. 3 – Failure To Maintain A Federal Tax Identification Number

Condition: The relief association failed to comply with the Tax Equity and Fiscal Responsibility Act by not maintaining a federal tax identification number. The relief association received a letter from the Internal Revenue Service stating that the relief association failed to file an annual information return or electronic notice. Therefore, the relief associations’ tax exempt status was automatically revoked, effective May 15, 2017.

Criteria: All businesses, both profit and nonprofit, are required to obtain a federal tax identification number and provide this number to any financial institution where funds are earning interest. If their tax identification number is not provided, the financial institution is required to withhold 31 percent of interest earned and transmit these funds to the Internal Revenue Service, representing federal income taxes.

Cause: Relief association officials failed to file an annual information return or electronic notice.

Effect: Failure to comply with the Tax Equity and Fiscal Responsibility Act could cause the relief association to be penalized by the Internal Revenue Service, resulting in the loss of funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We recommend that the relief association officials immediately send the requested information to the Internal Revenue Service, reapply for a federal tax identification number through the Internal Revenue Service and furnish this number to its financial institutions. Relief association officials should also consider applying to the Internal Revenue Service for tax exempt status as a nonprofit corporation under Internal Revenue Code 501(c). For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

Management’s Response: Relief association management was informed of this finding on July 26, 2018; however, as of the date of this report, we have not received a response.

Auditor’s Conclusion: Compliance will be subject to verification through our next audit.

LIBERTY FIRE COMPANY RELIEF ASSOCIATION OF THE BOROUGH OF
SPRING CITY, CHESTER COUNTY, PENNSYLVANIA
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 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 may 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.

LIBERTY FIRE COMPANY RELIEF ASSOCIATION OF THE BOROUGH OF
SPRING CITY, CHESTER COUNTY, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2017

Cash	<u>\$ 152,096</u>
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LIBERTY FIRE COMPANY RELIEF ASSOCIATION OF THE BOROUGH OF
 SPRING CITY, CHESTER COUNTY, PENNSYLVANIA
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 20,221
Relief benefits	282
Tokens of sympathy and goodwill	250
Total Benefit Services	\$ 20,753
Fire Services:	
Equipment purchased	\$ 300,000
Equipment maintenance	6,040
Training expenses	540
Total Fire Services	\$ 306,580
Administrative Services:	
Other administrative expenses	\$ 24
Bond premiums	750
Total Administrative Services	\$ 774
Other Expenditures:	
Payments on loan	\$ 2,391
Total Expenditures	\$ 330,498

LIBERTY FIRE COMPANY RELIEF ASSOCIATION OF THE BOROUGH OF
SPRING CITY, CHESTER COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Liberty Fire Company Relief Association of the Borough of Spring City, Chester County,
Pennsylvania Governing Body:

Mr. Gary Beam
President

Ms. Danielle Thomaselli
Vice President/Secretary

Mr. David Pacana
Treasurer

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

Ms. Kimberly Moretti
Secretary
East Pikeland Township

Ms. Mary E. Flagg
Secretary
East Vincent Township

Mr. Dennis Rittenhouse
Secretary
Spring City Borough

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.