COMPLIANCE AUDIT

Liberty Fire Company Volunteer Firefighter’s Relief Association
York County, Pennsylvania
For the Period
January 1, 2014 to December 31, 2016

July 2017

Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General
Mr. Steven D. Miller, President
Liberty Fire Company Volunteer Firefighter’s
   Relief Association
York County

We have conducted a compliance audit of the Liberty Fire Company Volunteer Firefighter’s Relief Association (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 December 31, 2016.

The objectives of the audit were:

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

2. 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 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.
We were not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided copies of bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2014 to December 31, 2016:

- The relief association did not take appropriate corrective action to address the findings contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report.

- The relief association, in all significant respects, 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, except as noted in the findings listed below and discussed later in this report.

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

  Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

  Finding No. 3 – Failure To Monitor Investment Activity

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.

July 3, 2017

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

<table>
<thead>
<tr>
<th>Municipality</th>
<th>County</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>North York Borough</td>
<td>York</td>
<td>$9,665</td>
<td>$9,640</td>
<td>$9,655</td>
</tr>
</tbody>
</table>

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 Fire Company
NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with the following prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- **Undocumented Expenditure**

- **Failure To Maintain A Complete And Accurate Equipment Roster**

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

Condition: As disclosed in the prior audit report, the relief association again was unable to provide adequate supporting documentation for an expenditure amounting to $624 distributed to an individual relief association member previously on December 16, 2013 or receive reimbursement for the undocumented expenditure prior to the conduct of our audit engagement.

Criteria: As previously disclosed, 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.

Without adequate supporting documentation, such as an invoice, this department was unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to provide supporting documentation to evidence the propriety of this expenditure.

Effect: As previously cited, lack of supporting documentation, such as an invoice, made it impossible to determine if the expenditure was 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.

Recommendation: We again recommend that the relief association officials provide this department with adequate supporting documentation, such as an invoice, to ensure the propriety of the expenditure or that the relief association again be reimbursed $624 for the undocumented expenditure. 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.
Finding No. 1 – (Continued)

Management’s Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the affiliated fire company reimbursed the relief association $624 for the undocumented expenditure on June 1, 2017.

Auditor’s Conclusion: We reviewed documentation verifying that the reimbursement of $624 was received. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: As disclosed in the prior audit report, the relief association failed to maintain a complete and accurate roster of equipment owned by the relief association to properly account for equipment purchases amounting to $6,112 made during the prior audit period. A similar condition occurred during the current audit period. The relief association purchased additional equipment amounting to $2,649 during the current audit period; however, again, there was no equipment roster created or maintained for these purchases. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

Criteria: As previously disclosed, prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association’s equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory
Finding No. 2 – (Continued)

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The continued failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association’s equipment purchases. In addition, the continued failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We again recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. 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, as a result of our audit, provided a cumulative equipment roster on June 28, 2017.

Auditor’s Conclusion: Compliance for maintaining a cumulative equipment roster during the next audit period will be subject to verification through our next audit.

Finding No. 3 – Failure To Monitor Investment Activity

Condition: Relief association officials failed to monitor their investment activity. Specifically, on February 3, 2016, a certificate of deposit was considered dormant and was escheated to the Pennsylvania Department of Treasury. As of the last renewal notice of October 22, 2014, the stated value of this investment amounted to $2,566 and the value reported by the Pennsylvania Department of Treasury amounted to $2,575. The relief association was unaware of this condition prior to the conduct of this engagement.

Criteria: The relief association’s governing body has ultimate authority and the fiduciary responsibility for the financial management of relief association’s funds which includes an obligation to monitor the activity of relief association’s investments on a periodic basis which is a prerequisite for sound administration of relief association accounts.
Finding No. 3 – (Continued)

Cause: Relief association officials failed to establish adequate internal control procedures over their investment activity and were unaware that their certificate of deposit was considered dormant due to inactivity.

Effect: The relief association’s failure to adequately monitor investment activity resulted in a loss of funds to pay general operating expenses or for other investment purposes and any future interest income from this investment.

Recommendation: We recommend the relief association contact the Bureau of Unclaimed Property with the Pennsylvania Department of Treasury to obtain the certificate of deposit funds. In addition, the management of the relief association should monitor all future investments to ensure they are maximizing their investment return and safeguarded from loss. 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 and indicated they will take action to comply with the recommendation.

Auditor’s Conclusion: Compliance will be subject to verification through our next audit.
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Cash</td>
<td>$19,436</td>
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<td>Fair Value of Escheated Investment</td>
<td>2,575</td>
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<td>Total Cash and Investments</td>
<td>$22,011</td>
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Expenditures:

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<th>Amount</th>
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<tr>
<td><strong>Benefit Services</strong></td>
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<tr>
<td>Insurance premiums</td>
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<td><strong>Fire Services</strong></td>
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<tr>
<td>Equipment purchased</td>
<td>$2,649</td>
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<td>Equipment maintenance</td>
<td>2,959</td>
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<td>Training expenses</td>
<td>634</td>
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<tr>
<td><strong>Total Fire Services</strong></td>
<td>$6,242</td>
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<tr>
<td><strong>Administrative Services</strong></td>
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<tr>
<td>Other administrative expenses</td>
<td>$130</td>
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<tr>
<td>Bond premiums</td>
<td>250</td>
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<td><strong>Total Administrative Services</strong></td>
<td>$380</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>$19,200</td>
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This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Liberty Fire Company Volunteer Firefighter’s Relief Association Governing Body:

Mr. Steven D. Miller  
President

Mr. Weston G. Teare  
Vice President

Mr. Christopher Wilhelm  
Secretary

Ms. Delores M. Hoover  
Treasurer

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

Ms. Fae Byers  
Secretary  
North York 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.