

# COMPLIANCE AUDIT

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## Rheems Fire Company Relief Association Lancaster County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

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September 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Jon D. Brandt, President  
Rheems Fire Company  
Relief Association  
Lancaster County

We have conducted a compliance audit of the Rheems Fire Company 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, 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.

We were not able to obtain an independent confirmation of the cash balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2017, the relief association had a cash balance of \$123,369, we were not able to verify this cash balance.

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, 2016 to December 31, 2017, 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 – Improper Equipment Transactions

Finding No. 2 – Unauthorized Expenditure

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.

September 18, 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 Donegal Township	Lancaster	\$ 2,641	\$ 2,534
Mount Joy Township	Lancaster	\$20,882	\$19,977
West Donegal Township	Lancaster	\$52,730	\$49,876

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:

Rheems Fire Company

RHEEMS FIRE COMPANY RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Improper Equipment Transactions**

Condition: The relief association purchased equipment in the amount of \$3,400 that was improperly resold to members in the form of individual loans.

Criteria: Section 7418(a) of Act 118 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.

In addition, Section 7416(f) of Act 118, states:

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

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

The primary purpose of the equipment purchases was for the personal benefit of the relief association members; consequently, they are not considered authorized expenditures as defined by Act 118.

Furthermore, the relief association is not authorized to act as a purchasing agent for members' personal equipment nor is it authorized to provide financing for members' purchases.

Cause: Relief association officials indicated that they were unfamiliar with the requirements of Act 118 and also failed to establish adequate internal control procedures to ensure supporting documentation for all equipment purchased for its members and the related reimbursements.

Effect: As a result of the improper equipment transactions, relief association funds were not available for authorized purposes.

Recommendation: We recommend that the relief association be reimbursed \$3,400 for the improper equipment transactions and the relief association officials immediately discontinue the practice of purchasing equipment for resale to members of the relief association. We also recommend that the relief association officials maintain supporting documentation for all future expenditures and reimbursements. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

RHEEMS FIRE COMPANY RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (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. 2 – Unauthorized Expenditure**

Condition: The relief association expended \$2,514 for a sparky the fire dog costume during the current audit period that is not authorized by Act 118. The relief association did receive a donation towards this purchase in the amount of \$2,135; consequently, the difference of \$379 is considered unauthorized.

Criteria: Section 7416(f) of Act 118 states:

The funds of any volunteer firefighters' relief association may be spent:

- (16) To purchase fire prevention materials for public distribution.

Costs associated with the purchase of a sparky the fire dog costume do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the expenditure for the sparky the fire dog costume was not authorized by Act 118.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

Recommendation: We recommend that the relief association be reimbursed \$379 for the unauthorized expenditure and that relief association officials become familiar with Section 7416(f) of Act 118 to aid them in determining the propriety of 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, as a result of our audit, the affiliated fire company reimbursed the relief association \$379 for the unauthorized expenditure on July 31, 2018.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$379 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.



RHEEMS FIRE COMPANY RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH BALANCE  
AS OF DECEMBER 31, 2017

Cash	<u>\$ 123,369</u>
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RHEEMS FIRE COMPANY RELIEF ASSOCIATION  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	<u>\$      8,978</u>
Fire Services:	
Equipment purchased	\$      76,190
Equipment maintenance	35,712
Training expenses	21,936
Fire prevention materials	<u>5,421</u>
Total Fire Services	<u>\$   139,259</u>
Administrative Services:	
Other administrative expenses	<u>\$      10,188</u>
Other Expenditures:	
Payments on loan	\$      38,597
Unauthorized expenditure	<u>379</u>
Total Other Expenditures	<u>\$      38,976</u>
Total Expenditures	<u><u>\$   197,401</u></u>

RHEEMS FIRE COMPANY RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Rheems Fire Company Relief Association Governing Body:

**Mr. Jon D. Brandt**  
President

**Mr. Gerald M. Freeman**  
Vice President

**Ms. Beth Wilson**  
Secretary

**Mr. Charles Stanford**  
Treasurer, Fire Chief

**Ms. Shannon Barnes**  
Assistant Treasurer

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

**Mr. Jeffrey Butler**  
Secretary  
East Donegal Township

**Ms. Patricia J. Bailey**  
Secretary  
Mount Joy Township

**Mr. Philip Dunn**  
Secretary  
West Donegal Township

RHEEMS FIRE COMPANY RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

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