

COMPLIANCE AUDIT

Southampton Fire Company Relief Association Bucks County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

February 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Joseph Reaney, President
Southampton Fire Company
Relief Association
Bucks County

We have conducted a compliance audit of the Southampton 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.

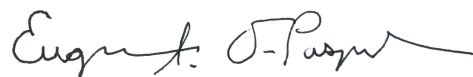
Based on our audit procedures, we conclude that, for the period January 1, 2016 to December 31, 2017, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the finding listed below and discussed later in this report.

Finding – Failure To Secure Ownership Interest In Jointly Purchased Equipment

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 response has 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.

February 14, 2019



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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2016</u>	<u>2017</u>
Upper Southampton Township	Bucks	\$130,816	\$117,552

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:

Southampton Fire Company No. 1

SOUTHAMPTON FIRE COMPANY RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Condition: On December 22, 2017, the relief association expended \$51,125 for the purchase of self-contained breathing apparatus (SCBA) equipment. The purchase of the SCBA equipment was made in conjunction with a FEMA grant obtained by the affiliated fire company. However, the relief association did not secure their ownership interest in this purchase since an agreement was not created documenting the fire company's intent to turn over total ownership of the SCBA equipment to the relief association.

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.

Prudent business practice dictates that the relief association should secure its ownership interest in the SCBA equipment by executing a formal written agreement that enumerates the relief association's proportional share of the SCBA equipment. 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.

Cause: Relief association officials failed to adequately secure the association's proportional ownership interest in the SCBA equipment for which the relief association expended funds.

Effect: The failure to adequately secure their proportional share of ownership interest in the SCBA equipment which the relief association purchased places the relief association's ownership interest at greater risk. Until a written agreement is created and signed by representatives from both parties, there is no evidence to support that the equipment is owned partially or totally by the relief association.

SOUTHAMPTON FIRE COMPANY RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

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 SCBA equipment which was obtained in conjunction with the FEMA grant obtained by the Southampton Fire Company. If such action is not taken, we recommend that the relief association be reimbursed \$51,125. 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 relief association provided this department with a formal written agreement with the fire company on February 26, 2019 that assigned all ownership rights to the relief association.

Auditor’s Conclusion: We reviewed the formal written agreement received on February 26, 2019 verifying the propriety of the agreement. Compliance for maintaining future agreements to secure ownership interest of equipment during the next audit period will be subject to verification through our next audit.

SOUTHAMPTON FIRE COMPANY RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 254,412
Fair Value of Investments	<u>939,872</u>
Total Cash and Investments	<u>\$ 1,194,284</u>

SOUTHAMPTON 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	\$ 106,363
Relief benefits	35,075
Total Benefit Services	<u>\$ 141,438</u>
Fire Services:	
Equipment purchased	\$ 110,085
Equipment maintenance	22,897
Training expenses	12,732
Fire prevention materials	4,957
Total Fire Services	<u>\$ 150,671</u>
Administrative Services:	
Other administrative expenses	\$ 989
Bond premiums	2,470
Total Administrative Services	<u>\$ 3,459</u>
Total Expenditures	<u>\$ 295,568</u>

SOUTHAMPTON FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Southampton Fire Company Relief Association Governing Body:

Mr. Joseph Reaney
President

Mr. Michael Lorenz
Vice President

Mr. Kenneth Lorenz
Recording Secretary

Ms. Hanne Stahl
Treasurer

Mr. Thomas McCullough, Jr.
Financial Secretary

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

Mr. Joseph W. Golden
Township Manager
Upper Southampton Township

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.