

COMPLIANCE AUDIT

The Volunteer Firemen's Relief Association of the Union Fire Co. #1, Oxford, Chester County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

September 2019



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. James Booth, President
The Volunteer Firemen's Relief Association
of the Union Fire Co. #1, Oxford,
Chester County, Pennsylvania
Chester County

We have conducted a compliance audit of The Volunteer Firemen's Relief Association of the Union Fire Co. #1, Oxford, 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, 2017 to December 31, 2018.

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 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 objectives. 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, 2017 to December 31, 2018:

- The relief association took appropriate corrective action to address two of the three findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed 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 –
Inadequate Relief Association Bylaws

Finding No. 2 – 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 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 12, 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>
East Nottingham Township	Chester	\$52,807	\$48,295
Elk Township	Chester	\$12,286	\$11,154
Lower Oxford Township	Chester	\$30,061	\$27,562
Oxford Borough	Chester	\$26,182	\$23,830
Upper Oxford Township	Chester	\$ 9,482	\$ 8,659
West Nottingham Township	Chester	\$17,177	\$15,691
Colerain Township	Lancaster	\$ 2,879	\$ 2,647

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:

Union Fire Co. #1

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE UNION FIRE CO. #1,
OXFORD, CHESTER COUNTY, PENNSYLVANIA
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has complied with two of the three 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.

- Untimely Deposit Of State Aid

By timely depositing all income received.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of three prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Inadequate Relief Association Bylaws

We are concerned by the 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.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE UNION FIRE CO. #1,
OXFORD, CHESTER COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the relief association do not contain all of the provisions required by Section 7415(c) of Act 118. Specifically, the bylaws do not require the amount of the surety bond to be greater than the cash assets.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(c)(4) of Act 118 states that the relief association's bylaws shall:

Require 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 funds of the association.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to amend the relief association bylaws to meet the bylaw provisions required by Act 118.

Effect: As a result of the mandatory provision not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We again recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of the relief association. 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE UNION FIRE CO. #1,
OXFORD, CHESTER COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Condition: On February 9, 2018, the relief association expended \$19,705 on equipment for a fire company owned vehicle without properly securing its ownership interest.

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 proportional ownership interest in the vehicle that has equipment purchased by the relief association by executing a formal written agreement that enumerates the relief association's proportional share of the cost of the vehicle. 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 vehicle for which the relief association purchased equipment.

Effect: The failure to adequately secure the proportional share of ownership interest in the vehicle for which relief association purchased equipment was installed places the relief association's ownership interest at greater risk.

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 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 \$19,705. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE UNION FIRE CO. #1,
OXFORD, 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, as a result of our audit, a formal written agreement was executed between the relief association and the fire company on September 9, 2019.

Auditor's Conclusion: We reviewed documentation verifying that a joint ownership agreement between the relief association and the fire company giving proportional ownership interest was received. Compliance for future joint purchases will be subject to verification through our next audit.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE UNION FIRE CO. #1,
OXFORD, CHESTER COUNTY, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2018

Cash	\$ 165,321
Fair Value of Investments	<u>1,050,549</u>
Total Cash and Investments	<u>\$ 1,215,870</u>

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE UNION FIRE CO. #1,
 OXFORD, CHESTER COUNTY, PENNSYLVANIA
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 46,240
Relief benefits	48,353
Total Benefit Services	<u>\$ 94,593</u>
Fire Services:	
Equipment purchased	\$ 178,269
Equipment maintenance	74,912
Training expenses	35,200
Fire prevention materials	2,192
Total Fire Services	<u>\$ 290,573</u>
Administrative Services:	
Officer compensation	\$ 1,175
Other administrative expenses	7,146
Bond premiums	640
Total Administrative Services	<u>\$ 8,961</u>
Total Expenditures	<u><u>\$ 394,127</u></u>

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE UNION FIRE CO. #1,
OXFORD, CHESTER COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Volunteer Firemen's Relief Association of the Union Fire Co. #1, Oxford, Chester County,
Pennsylvania Governing Body:

Mr. James Booth
President

Mr. Shane Kinsey
Vice President

Mr. Ora Robert Mitchell
Secretary

Mr. Matthew Woolston
Treasurer

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE UNION FIRE CO. #1,
OXFORD, CHESTER COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

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

Ms. Kelli Karlton
Secretary
East Nottingham Township

Ms. Terri Kukoda
Secretary
Elk Township

Ms. Deborah J. Kinney
Secretary
Lower Oxford Township

Mr. Brian Hoover
Secretary
Oxford Borough

Ms. Jane Daggett
Secretary
Upper Oxford Township

Ms. Candace Miller
Secretary
West Nottingham

Ms. Carmen B. Wiker
Secretary
Colerain 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.