



**AMERICAN HOSE, HOOK AND LADDER COMPANY
FIREMEN'S RELIEF ASSOCIATION**

BUCKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2011

RELEASED OCTOBER 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Jeffrey Davis, President
AMERICAN HOSE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Bucks County

We have conducted a compliance audit of the American Hose Volunteer Firefighters' 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, 2009 to December 31, 2011.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the American Hose Volunteer Firefighters' 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. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the American Hose Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the American Hose Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives.

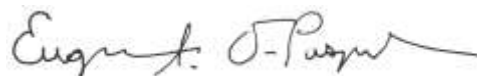
The results of our audit, for the period January 1, 2009 to December 31, 2011, found the American Hose Volunteer Firefighters' Relief Association took appropriate corrective action to address the findings contained in our prior audit report and, in all significant respects, received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the finding listed below and discussed later in this report. The results of our tests also indicated the American Hose Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$23,610 and no investments.

Finding – Unsecured Loan

Furthermore, we noted another matter that also has been included in the following observation and detailed in the Observation section of this report.

The contents of this report were discussed with the management of the American Hose Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

June 19, 2013



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

Background.....	1
Status of Prior Findings	3
Finding and Recommendation:	
Finding – Unsecured Loan.....	4
Observation:	
Observation – Scope Limitation	5
Accompanying Expenditure Information	6
Report Distribution List	7

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 American Hose, Hook and Ladder Company Firemen's Relief Association, herein referred to as American Hose Volunteer Firefighters' 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 the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts 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 the volunteer firefighters' relief association 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, which is or are recognized as providing the service to the municipality. The American Hose Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Bristol Borough	Bucks	\$12,653	\$14,241	\$21,165

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The American Hose Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

American Hose, Hook and Ladder Company

AMERICAN HOSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The American Hose Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Undocumented Expenditures

By providing adequate documentation to evidence the validity of the undocumented expenditures made during the prior audit period.

- Unauthorized Expenditure

By receiving reimbursement from the affiliated fire company, in the amount of \$659, for the unauthorized expenditure made during the prior audit period.

- Failure to Segregate Relief Association Officers' Duties

By ensuring that there is segregation of duties between the offices of secretary and treasurer.

AMERICAN HOSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Unsecured Loan

Condition: On March 10, 2006, the relief association made a secured loan to the affiliated fire company in the amount of \$9,000. While the original loan was secured by a 1992 Chevy Truck, the affiliated fire company sold the truck during the current audit period; therefore, the loan became unsecured. The VFRA must secure the loan with another vehicle or liquidate the loan.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) requires that loans be:

. . . (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

Cause: Relief association officials were aware that the loan to the affiliated fire company must be secured to ensure compliance with Act 118 provisions. However, the affiliated fire company sold the vehicle that secured the loan, and failed to update the collateral for this loan.

Effect: Failure to obtain adequate security for the loan places the loan at greater risk.

Recommendation: We recommend the relief association and the fire company amend the written loan agreement to provide adequate security for the relief association's investment as required by Act 118 at 35 Pa.C.S. § 7416(c)(3). If such action is not taken, we recommend that the loan be immediately liquidated. 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.

AMERICAN HOSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Scope Limitation

The American Hose Volunteer Firefighters' Relief Association (VFRA) does not maintain canceled or imaged checks. Without copies of canceled or imaged checks, we could not determine whether two VFRA officers authorized and signed the checks. While the VFRA provided bank statements, the VFRA failed to provide copies of canceled or imaged checks.

Act 118 at 35 Pa.C.S. § 7415(c)(3) states, in part, that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

Act 118 at 35 Pa.C.S. § 7418(a) states, in part, that 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 . . . 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.

Generally Accepted Government Auditing Standards (GAGAS) Section No. 6.56 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 6.61(f) states, "Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity."

Our inability to review canceled checks or imaged checks constitutes a scope limitation on our audit.

AMERICAN HOSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2011

Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 17,486
Tokens of sympathy and goodwill	175
Total Benefit Services	\$ 17,661
Fire Services:	
Equipment purchased	\$ 12,372
Equipment maintenance	9,431
Training expenses	1,226
Total Fire Services	\$ 23,029
Administrative Services:	
Other administrative expenses	\$ 2,734
Total Administrative Services	\$ 2,734

AMERICAN HOSE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

American Hose Volunteer Firefighters' Relief Association Governing Body:

Mr. Jeffrey Davis, President

Mr. Jay McCay, Vice President

Mr. Christopher Reed, Secretary

Mr. William J. Frake, Treasurer

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

Mr. Louis Quattrocchi, Secretary
Bristol Borough

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.