



**HONEY BROOK FIRE CO. #1 RELIEF ASSOCIATION
CHESTER 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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Donald Kline, President
HONEY BROOK VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Chester County

We have conducted a compliance audit of the Honey Brook 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 Honey Brook 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 Honey Brook Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Honey Brook 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.

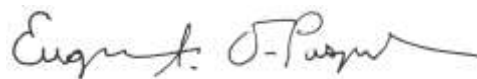
The results of our audit, for the period January 1, 2009 to December 31, 2011, found the Honey Brook Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the findings contained in our prior audit report. However, the Honey Brook Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Honey Brook Volunteer Firefighters' Relief Association, 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 findings listed below and discussed in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Honey Brook Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$148,887 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation -
Unauthorized Expenditure

Finding No. 2 – Failure to Maintain Minutes of Meetings

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

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



EUGENE A. DEPASQUALE
Auditor General

June 12, 2013

CONTENTS

Background.....	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditure.....	4
Finding No. 2 – Failure to Maintain Minutes of Meetings	6
Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster.....	7
Accompanying Expenditure Information	10
Report Distribution List	11

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 Honey Brook Fire Co. #1 Relief Association, herein referred to as Honey Brook 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 Honey Brook Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Honey Brook Borough	Chester	\$ 9,087	\$10,228	\$18,335
Honey Brook Township	Chester	\$45,673	\$51,408	\$87,841

BACKGROUND (Continued)

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

Honey Brook Fire Company No. 1

HONEY BROOK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Honey Brook Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Failure to Maintain a Complete and Accurate Membership Roster

By maintaining a comprehensive listing of the relief association membership.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Honey Brook Volunteer Firefighters' Relief Association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditure

Although the relief association received \$17,261 from the affiliated fire company for the prior audit unauthorized expenditures, they again expended money for unauthorized expenditures during the current audit period.

We are concerned with the volunteer firefighters' relief association's failure to correct the previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

HONEY BROOK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: As cited in our prior audit report, the relief association again expended funds for an item that is not authorized by Act 118. On April 7, 2011, the relief association expended \$4,000 for the creation and printing of the fire company's standard operating procedures and bylaws that are not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1) states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

Costs associated with creating and printing of the affiliated fire company's standard operating procedures and bylaws do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Even though notified of this condition during our prior audit, relief association officials neglected the fact that the expenditure for the fire company's standard operating procedures and bylaws 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.

However, as a result of our audit and subsequent to the period under review, on January 25, 2013, the relief association received \$4,000 from the affiliated fire company for the unauthorized expenditure.

Recommendation: We, again, recommend that the relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) 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.

HONEY BROOK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

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.

HONEY BROOK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Failure to Maintain Minutes of Meetings

Condition: The relief association failed to maintain minutes of meetings as required by Act 118. They were unable to provide minutes for any of the 36 meetings required to be held during the current audit period.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

. . . must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

Cause: Due to a change in officers, the current relief association officials were unable to obtain the minutes of meetings from the prior relief association secretary. Any minutes of meetings taken by relief association officials remain the property of the relief association and are not the property of the person recording the minutes.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend relief association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record of all financial-related business conducted by 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.

HONEY BROOK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials failed to maintain a complete and accurate roster of equipment owned by the relief association. Although, the relief association did provide a listing of equipment, it was insufficient as it only contained equipment purchased in 2011. The relief association purchased a total of \$61,162 in equipment during 2009 and 2010. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all of the relief association's fixed assets.

Criteria: Prudent business practice dictates 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 fixed assets. A cumulative equipment roster of all relief association equipment should include 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; and
- Evidence of the performance and results of an annual physical inventory.

Furthermore, prudent business practice requires the performance of an annual physical inventory of all relief association owned equipment.

Cause: Relief association officials failed to establish adequate internal control procedures over fixed assets requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The 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 failure to maintain a detailed equipment roster and perform an annual physical inventory of fixed assets prevents adequate accountability for, and safeguarding of, relief association fixed assets.

HONEY BROOK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding – (Continued)

Recommendation: We recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. 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.

HONEY BROOK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – (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.

HONEY BROOK 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	\$ 22,906
Tokens of sympathy and goodwill	381
Total Benefit Services	\$ 23,287
Fire Services:	
Equipment purchased	\$ 70,433
Equipment maintenance	26,326
Training expenses	16,255
Total Fire Services	\$ 113,014
Administrative Services:	
Other administrative expenses	\$ 8,088
Total Administrative Services	\$ 8,088
Other Expenditures:	
Principal payments on loan	\$ 25,000
Interest payments on loan	1,000
Total Other Expenditures	\$ 26,000

HONEY BROOK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Honey Brook Volunteer Firefighters' Relief Association Governing Body:

Mr. Donald Kline, President

Mr. Robert Klinger Sr., Vice President

Mr. Joseph Bellon, Secretary

Ms. Diane Hertzler, Treasurer

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

Ms. Janis A. Rambo, Secretary
Honey Brook Borough

Ms. Antoninette Antonini, Secretary
Honey Brook Township

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.