



**LIBERTY FIRE COMPANY RELIEF ASSOCIATION OF THE
BOROUGH OF SPRING CITY, CHESTER COUNTY, PENNSYLVANIA**

CHESTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2009



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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 Liberty Fire Company Relief Association of the Borough of Spring City, Chester County, Pennsylvania, herein referred to as Liberty 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.

BACKGROUND (Continued)

The Liberty Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
East Pikeland Township	Chester	\$ 6,947	\$ 7,116	\$ 6,543
East Vincent Township	Chester	\$20,728	\$21,088	\$19,026
Spring City Borough	Chester	\$19,732	\$20,165	\$18,614

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

Liberty Steam Fire Company No. 1

Mr. Paul Kern, President
LIBERTY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Chester County

We have conducted a compliance audit of the Liberty 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, 2007 to December 31, 2009.

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 finding 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 Liberty 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 Liberty Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Liberty Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, 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, 2007 to December 31, 2009, found the Liberty Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this report. In addition, the results of our audit found the Liberty 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 Liberty Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$28,178 and an investment balance with a fair value of \$5,643.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Unauthorized Expenditure

Finding No. 3 – Undocumented Expenditures

Finding No. 4 – Failure to Secure Ownership Interest in Jointly Purchased Vehicles

Finding No. 5 – Failure to Maintain a Complete and Accurate Membership Roster

The contents of this report were discussed with the management of the Liberty Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

May 21, 2010

JACK WAGNER
Auditor General

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

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

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our prior audit report, the relief association officials, again, did not maintain a complete and accurate roster of equipment owned by the relief association. While a roster of relief association owned equipment was provided, it did not list any equipment purchased during the last audit period from 2005 to 2006 and did not include any equipment purchased during 2007 of the current audit period. In addition, the equipment roster did not list \$5,375 of equipment purchased in 2009. Finally, 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: Sound 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.

Cause: While notified of this condition during our prior audit, relief association officials, again, 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.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We, again, 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.

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.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditure

Condition: The relief association expended \$3,828 for repairs to a fire company owned vehicle that is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(11) states:

The 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.

Because the Department of the Auditor General is legislatively prohibited from giving pre-audit advice, an interagency agreement with the Department of Community and Economic Development (DCED) has been established whereby the DCED provides interpretation of Act 118. Costs associated with repairs to a fire company owned vehicle has been deemed by DCED to not qualify as safeguard equipment; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials were unaware that the expenditure for the repairs to a fire company owned vehicle is 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, subsequent to the audit period, on July 20, 2010, the relief association was reimbursed by the Liberty Steam Fire Company No. 1, in the amount of \$3,828, for the above unauthorized expenditure.

Recommendation: We recommend 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.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and has taken action to comply with the recommendation.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
03/30/08	3559	Affiliated fire company	\$ 507
12/01/08	3582	Equipment vendor	<u>508</u>
Total			<u>\$ 1,015</u>

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) 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), [FN1] 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.

Without adequate supporting documentation, such as invoices, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, good business practices dictate that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

However, subsequent to the audit period, on July 20, 2010, the relief association was reimbursed by the Liberty Steam Fire Company No. 1, in the amount of \$1,015, for the above undocumented expenditures.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 (Continued)

Recommendation: We recommend the relief association officials maintain supporting documentation for all 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 has taken action to comply with the recommendation.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Secure Ownership Interest in Jointly Purchased Vehicle

Condition: During the current audit, we found that the relief association failed to address the verbal observation issued during the prior audit. During the prior audit, on January 6, 2006, the relief association expended \$100,000 for the purpose of jointly purchasing a 2006 Emergency One fire fighting vehicle with the Liberty Steam Fire Company No. 1. During the current audit period, in 2009 the relief association made four payments, totaling \$70,242, for the purpose of jointly purchasing a 2009 Keystone special service vehicle with the Liberty Steam Fire Company No. 1. Both vehicles were jointly titled in the name of the relief association and fire company. However, the relief association did not adequately secure its ownership interest in these jointly purchased vehicles as written agreements that specify the percentage of relief association financial participation based upon total cost were not done.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) 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), [FN1] 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 jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. 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: Even though verbally notified of this condition during our prior audit, relief association officials still neglected to adequately secure its proportional ownership interests in these jointly purchased vehicles.

Effect: Failure to adequately secure the proportional share of ownership interests in the jointly purchased vehicles places the relief association's ownership interests at greater risk.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend the relief association execute formal written agreements with the fire company that enumerates the relief association's proportional ownership interest in each jointly purchased vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicles are ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$170,242. 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.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure to Maintain a Complete and Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members. While a membership roster was provided, it only included a list of members' names, years joined, and membership classifications.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member;
- Members' mailing addresses;
- Dates of births;
- Dates of memberships; and
- Membership classifications.

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials were unaware that they should maintain a comprehensive roster of relief association members.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2009

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	\$ 27,514
Total Benefit Services	\$ 27,514
Fire Services:	
Equipment purchased	\$ 100,587
Equipment maintenance	12,286
Training expenses	6,067
Fire prevention materials	935
Total Fire Services	\$ 119,875
Administrative Services:	
Officer compensation	\$ 5,278
Other administrative expenses	190
Total Administrative Services	\$ 5,468
Total Investments Purchased	\$ 105,000
Other Expenditures:	
Principal payments on loan	\$ 21,083
Interest payments on loan	3,325
Reimbursement of erroneous deposit to fire company	5,000
Undocumented expenditures	1,015
Total Other Expenditures	\$ 30,423

LIBERTY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Liberty Volunteer Firefighters' Relief Association Governing Body:

Mr. Paul Kern, President

Mr. Kenny Rhodenbaugh, Vice President

Mr. Earl Schlichter, Secretary

Mr. Daniel Bauman, Treasurer

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

Ms. Kimberly B. Moretti, Secretary
East Pikeland Township

Ms. Mary E. Flagg, Secretary
East Vincent Township

Mr. Dennis Rittenhouse, Secretary
Spring City Borough

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.