



LIONVILLE FIREFIGHTER'S RELIEF ASSOCIATION

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 Lionville Firefighter's Relief Association, herein referred to as Lionville 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 Lionville 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>
Upper Uwchlan Township	Chester	\$ 36,868	\$ 43,221	\$ 41,016
Uwchlan Township	Chester	\$170,641	\$173,686	\$158,251
West Pikeland Township	Chester	\$ 26,642	\$ 27,404	\$ 24,248

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

Lionville Volunteer Fire Company

Mr. R. Lee Ruth, President
LIONVILLE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Chester County

We have conducted a compliance audit of the Lionville 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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lionville 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Lionville Volunteer Firefighters' Relief Association's recorded financial transactions, tests of

the physical existence of inventories, interviews of selected officials and direct confirmation of the Lionville 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 objective. 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 objective.

The results of our audit, for the period January 1, 2007 to December 31, 2009, found the Lionville 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 later in this report. The results of our tests also indicated the Lionville Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$556,427 and an investment balance with a fair value of \$710,048.

Finding No. 1 – Failure to Secure Ownership Interest Agreement in Jointly Purchased Vehicle

Finding No. 2 – Undocumented Loan

Finding No. 3 – Undocumented Expenditure

Finding No. 4 – Unauthorized Expenditures

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

August 31, 2010

JACK WAGNER
Auditor General

LIONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure to Secure Ownership Interest in Jointly Purchased Vehicle

Condition: On July 4, 2008, the relief association expended \$151,600 for the purpose of jointly purchasing a vehicle with the Lionville Volunteer Fire Company. However, the relief association did not adequately secure its ownership interest in this jointly purchased vehicle.

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: Relief association officials failed to adequately secure its proportional ownership interest in the jointly purchased vehicle.

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

Recommendation: We recommend the relief association execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased 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 \$151,600 for the cost of the purchased vehicle. 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.

LIONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Loan

Condition: On November 4, 2008, the relief association made a loan to the Lionville Volunteer Fire Company in the amount of \$150,000 without a formal written loan agreement.

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any obligation of an incorporated fire company, provided that the obligation is: (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.

In addition, good business practice requires such terms of the obligation be documented in a written loan agreement. Furthermore, the loan agreement should include a reasonable amortization schedule for the loan and a reasonable rate of interest to be paid on the loan principal outstanding of at least three percent (3%).

Cause: Relief association officials were unaware that the loan to the fire company must be documented to ensure compliance with Act 118 provisions.

Effect: Failure to adequately document the loan through a formal written agreement places the investment at greater risk.

Recommendation: We recommend the relief association and fire company prepare a formal written loan agreement, signed by both parties, specifying the payment schedule and the interest rate. The loan agreement must also specifically identify the collateral to protect the 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 and the relief association reimbursed. 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.

LIONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for a March 5, 2008, \$1,744 expenditure to a member for training expenses. The training was conducted in San Diego, California and associated costs included air fare, hotel, and subsistence charges for a member and his wife. The only supporting documentation included a credit card statement and an airline invoice.

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 detailed invoices and training certificates, 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 detailed invoices and training certificates, made it impossible to determine if the expenditure was 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.

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as detailed invoices and training certificates, to determine the validity of the expenditure or that the relief association be reimbursed \$1,744 for the undocumented expenditure. We also recommend that 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.

LIONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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.

LIONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
10/11/08	2078	Alcoholic beverages for members after fire safety open house at station	\$ 102
11/16/09	2222	Pediatric and obstetric supplies	400
Total			<u>\$ 502</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(11 and 16) 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.

- (16) To purchase fire prevention materials for public distribution.

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 pediatric and obstetric medical supplies have been deemed by DCED to not qualify as safeguard equipment for firefighters and costs associated with alcoholic beverages do not qualify as allowable fire prevention campaign costs; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials were unaware that the aforementioned expenditures were not authorized by Act 118.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118.

LIONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend the relief association be reimbursed \$502 for the unauthorized expenditures and that 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 indicated they will take action to comply with the recommendation.

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

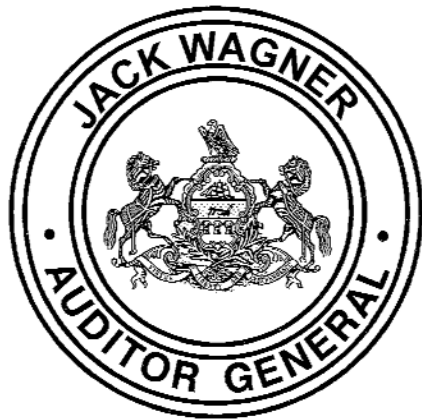
Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The 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	\$ 70,919
Relief benefits	195
Tokens of sympathy and goodwill	2,171
Total Benefit Services	\$ 73,285
Fire Services:	
Equipment purchased	\$ 345,340
Equipment maintenance	86,213
Training expenses	32,726
Fire prevention materials	7,191
Total Fire Services	\$ 471,470
Administrative Services:	
Miscellaneous administrative expenses	\$ 10,267
Total Administrative Services	\$ 10,267
Total Investments Purchased	\$ 350,000
Other Expenditures:	
Undocumented expenditure	\$ 1,744
Total Other Expenditures	\$ 1,744



LIONVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Lionville Volunteer Firefighters' Relief Association Governing Body:

Mr. R. Lee Ruth, President

Mr. Christopher Drach, Vice President

Mr. James Kusnierczyk, Secretary

Mr. Steven Edwards, Treasurer

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

Ms. Gwen Jonik, Secretary
Upper Uwchlan Township

Ms. Lynda Phiel, Secretary
Uwchlan Township

Ms. Joan C. Matthews, Secretary
West Pikeland Township

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.