



SINKING SPRING FIREMEN'S RELIEF ASSOCIATION

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO JUNE 1, 2010



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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 Sinking Spring Firemen's Relief Association, herein referred to as Sinking Spring Volunteer Firefighters' Relief Association, was 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 Sinking Spring Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Sinking Spring Borough	Berks	\$22,311	\$23,251	\$21,332	*

*As of June 1, 2010, the Sinking Spring Volunteer Firefighters' Relief Association dissolved its organization and transferred its assets to the Western Berks Volunteer Firefighters' Relief Association. (See Accompanying Expenditure Information section of this report). As such, the Sinking Spring Volunteer Firefighters' Relief Association did not receive a 2010 state aid allocation.

The volunteer firefighters' relief association and the affiliated fire service organization were separate, legal entities. The Sinking Spring Volunteer Firefighters' Relief Association was affiliated with the following fire service organization:

Liberty Fire Company No. 1 of Sinking Spring

Mr. James Major, Jr., President
SINKING SPRING VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Berks County

We have conducted a compliance audit of the Sinking Spring 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 June 1, 2010.

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 Sinking Spring 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 Sinking Spring Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Sinking Spring Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of June 1, 2010, 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 June 1, 2010, found the Sinking Spring 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 Sinking Spring 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 Sinking Spring Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information. As of June 1, 2010, this relief association dissolved and all remaining equipment and monetary assets were transferred to the Western Berks Volunteer Firefighters' Relief Association (see Accompanying Expenditure Information).

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

Finding No. 2 – Duplicate Payment

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

June 17, 2010

JACK WAGNER
Auditor General

SINKING SPRING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Sinking Spring 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 –
Unauthorized Expenditures

While the relief association obtained reimbursement of \$135 from the affiliated fire company for the unauthorized expenditure made during the prior audit period, they again, neglected to ensure that all current audit expenditures were authorized expenditures. Thus, the finding was issued again as discussed in Finding No. 1 of this report.

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.

SINKING SPRING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: As cited in our prior audit report, the relief association, again, neglected to become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of future expenditures. Specifically, during the current audit period, the relief association expended funds for the following items, which are not considered authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/11/08	1352	Fire company bond premium	\$ 250
10/13/08	1393	Fire company bond premium	250
Total			<u>\$ 500</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1, 2, 8, and 12) 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.
- (2) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

SINKING SPRING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

- (8) To contribute to or to purchase contracts of insurance which will contribute to the cost of rehabilitating and retraining volunteer firefighters who, by reason of their participation in the fire service, have suffered a major impairment of the ability to continue their vocation.

- (12) To secure insurance against the legal liability of volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or performing their duties as special fire police.

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. The fire company's bond premium has been deemed by DCED to not qualify as an authorized insurance benefit which directly covers the volunteer firefighter; consequently, these disbursements for payment of the fire company's bond premiums are not authorized under Act 118.

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

Recommendation: Due to the dissolution of the Sinking Spring Volunteer Firefighters' Relief Association and merger and asset transfer to the Western Berks Volunteer Firefighters' Relief Association, our recommendation is to the Western Berks Volunteer Firefighters' Relief Association. We recommend the Western Berks Volunteer Firefighters' Relief Association be reimbursed \$500 for the unauthorized expenditures and that the Western Berks Volunteer Firefighters' Relief Association officials ensure they are familiar with Act 118 provisions to aid them in determining the priority of future expenditures.

SINKING SPRING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Duplicate Payment

Condition: On November 9, 2009, the relief association expended \$1,352 for fire prevention materials. On December 12, 2009, the relief association erroneously made a duplicate payment for the same fire prevention materials. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices.

Cause: The volunteer firefighters' relief association failed to establish internal control procedures which would require that all invoices or other billing documents be canceled or otherwise effectively marked to prevent duplicate payments.

Effect: As a result of this erroneous payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: Due to the dissolution of the Sinking Spring Volunteer Firefighters' Relief Association and merger and asset transfer to the Western Berks Volunteer Firefighters' Relief Association, our recommendation is to the Western Berks Volunteer Firefighters' Relief Association. We recommend the Western Berks Volunteer Firefighters' Relief Association be reimbursed \$1,352 for the erroneous duplicate payment. The Western Berks Volunteer Firefighters' Relief Association officials should consider contacting the vendor to recover the duplicate payment. In addition, the Western Berks Volunteer Firefighters' Relief Association should ensure accounting and internal control procedures have been established to monitor future relief association expenditures.

SINKING SPRING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO JUNE 1, 2010

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	\$ 12,201
Relief benefits	100
Total Benefit Services	<u>\$ 12,301</u>
Fire Services:	
Equipment purchased	\$ 44,048
Equipment maintenance	9,803
Training expenses	7,727
Fire prevention materials	3,558
Total Fire Services	<u>\$ 65,136</u>
Administrative Services:	
Miscellaneous administrative expenses	\$ 4,907
Total Administrative Services	<u>\$ 4,907</u>
Other Expenditures:	
Principal payments on lease-financing	\$ 19,059
Interest payments on lease-financing	4,798
Transfer of monetary assets	14,320
Total Other Expenditures	<u>\$ 38,177</u>

SINKING SPRING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION (Continued)
FOR THE PERIOD JANUARY 1, 2007 TO JUNE 1, 2010

*Transfer of Monetary Assets/Dissolution of Sinking Spring Volunteer Firefighters' Relief Association

During 2009, the membership of the Sinking Spring Volunteer Firefighters' Relief Association voted to approve the dissolution of its relief association and the subsequent transfer of assets to the Western Berks Volunteer Firefighters' Relief Association. Effective June 1, 2010, the Sinking Spring Volunteer Firefighters' Relief Association completed the process of dissolution by transferring ownership of its equipment inventory and monetary assets to the Western Berks Volunteer Firefighters' Relief Association.

SINKING SPRING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Sinking Spring Volunteer Firefighters' Relief Association Governing Body:

Mr. James Major, Jr., President
Ms. Joan Hanley, Vice President
Ms. June Bingaman, Secretary
Mr. Jeffrey Weidner, Treasurer

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

Ms. Regina Shade, Secretary
Sinking Spring 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.