

COMPLIANCE AUDIT

Green Ridge Relief Association

Delaware County, Pennsylvania

For the Period

January 1, 2010 to December 31, 2013

April 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Michael Lucy, President
GREEN RIDGE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Green Ridge 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, 2010 to December 31, 2013.

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 state aid 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 Green Ridge 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 Green Ridge Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Green Ridge Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2013, 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, 2010 to December 31, 2013, found the Green Ridge 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 Green Ridge Volunteer Firefighters' Relief Association did not, in all significant respects, receive state aid and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the findings listed below and discussed later in this report. Therefore, the Green Ridge Volunteer Firefighters' Relief Association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

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

Finding No. 2 – Failure To Secure Ownership Interests In Jointly Purchased
Equipment

Finding No. 3 – Failure To Maintain Surety (Fidelity) Bond Coverage

The results of our tests also indicated the Green Ridge Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2013, had a cash balance of \$115,286 and an investment balance with a fair value of \$49,324.

The contents of this report were discussed with the management of the Green Ridge Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

March 10, 2015



EUGENE A. DEPASQUALE
Auditor General

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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 Green Ridge Relief Association, herein referred to as the Green Ridge 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 Green Ridge Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Aston Township	Delaware	\$64,025	\$99,537	\$56,341	\$64,685

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

Green Ridge Fire Company

GREEN RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Green Ridge 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:

- Undocumented Expenditures

We are concerned by the relief association's failure to correct this previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

GREEN RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: As cited in the Status of Prior Finding section of this report, the relief association again was unable to provide adequate supporting documentation for expenditures made during the prior audit that totaled \$926.

In addition, during the current audit period, the relief association entered into an agreement with the Fire Company to finance the purchase of a 2014 Chevy Tahoe, at a cost of \$51,172 (\$33,525 for the vehicle and \$17,647 in equipment), as discussed in Finding No. 2. However, supporting documentation was not provided for the \$17,647 of equipment purchased.

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), 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 an invoice, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

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

GREEN RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (continued)

Recommendation: We again recommend the relief association provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the expenditures or that the relief association be reimbursed \$926 for the undocumented expenditures. We also recommend the relief association provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the equipment being financed or that the relief association be reimbursed \$17,647 for the undocumented expenditure. In addition, we 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.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the affiliated fire company reimbursed the relief association \$926 for the one undocumented expenditures on January 16, 2015.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$926 was received. Compliance for the remaining expenditure totaling \$17,647 and expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Failure To Secure Ownership Interests In Jointly Purchased Equipment

Condition: During the prior and current audit cycles, the relief association failed to secure their ownership interests in jointly purchased equipment as follows:

- From March 19, 2007 through March 14, 2011, the relief association financed \$27,000 for the purchase of a 2006 Ford Expedition. However the relief association did not adequately secure its ownership interest in this jointly purchased vehicle as the vehicle was jointly titled with the Fire Company
- On October 8, 2013, the relief association contributed a \$5,117 down payment toward the purchase of a 2014 Chevy Tahoe and related radio and lighting equipment, at a cost of \$51,172 (\$33,525 for the vehicle and \$17,647* in equipment). The Fire Company entered into a financing agreement for the remaining cost of \$46,055. An agreement was provided for this expenditure stating the vehicle would be titled to the relief association upon completion of this financial obligation, however, it was not properly executed; it only contained the signature of one relief association officer who also holds the same office in the fire company.

GREEN RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

*The cost of this equipment is considered undocumented as discussed in Finding No. 1.

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), 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 vehicles by executing formal written agreements, signed by two representatives of both parties, that enumerates the relief association's proportional share of financing. Such agreements shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicles are ever sold.

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

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

Recommendation: We recommend the relief association execute formal written agreements with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased vehicles as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicles are ever sold. We also recommend that such agreements be signed by two representatives of each party involved. In addition, we recommend the vehicles be properly titled to the relief association. If such action is not taken, we recommend that the relief association be reimbursed \$32,117. 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.

GREEN RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

Finding No. 3 – Failure To Maintain Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. During the current audit period, the relief association's Surety (Fidelity) bond coverage expired on April 9, 2013. As of December 31, 2013, the relief association's cash assets totaled \$115,286.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: Relief association officials indicated that they were unaware of the Act 118 provision requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer.

Effect: As a result of the authorized disbursing officer of the relief association not being bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials obtain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required by Act 118. 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

GREEN RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

GREEN RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2010 TO DECEMBER 31, 2013

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	\$ 23,032
Fire Services:	
Equipment purchased	\$ 147,732
Equipment maintenance	64,737
Training expenses	31,879
Fire prevention materials	2,854
Cell phone reimbursements	13,823
Total Fire Services	\$ 261,025
Administrative Services:	
Other administrative expenses	\$ 3,136
Other Expenditures:	
Reversal of erroneous deposit	\$ 25,000
Short term loan to Fire Company	25,000
Principal payments on lease-financing	11,696
Interest payments on lease-financing	998
Total Other Expenditures	\$ 62,694

GREEN RIDGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Green Ridge Volunteer Firefighters' Relief Association Governing Body:

Mr. Michael Lucy	President
Mr. Ken Dawson	Vice President
Mr. Robert Denny	Secretary
Mr. Edward Gane	Treasurer

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

Mr. Richard Lehr Aston Township	Secretary
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This report is a matter of public record and is available online at www.PaAuditor.gov. 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@PaAuditor.gov.