

COMPLIANCE AUDIT

The Avondale Fire Company No. 1 Relief Association Chester County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

March 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Bryan Franks, President
Avondale Volunteer Firefighters'
Relief Association
Chester County

We have conducted a compliance audit of the Avondale 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, 2012 to December 31, 2014.

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.
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 Avondale 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. Volunteer firefighters' relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain an independent confirmation of a portion of the investment balance directly from the financial institution. Therefore, while the Avondale Volunteer Firefighters' Relief Association provided copies of investment statements that indicated that, as of December 31, 2014, the volunteer firefighters' relief association had an investment balance of \$195,106, we were not able to verify a portion of this investment balance.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2012 to December 31, 2014:

- The Avondale Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the four findings contained in our prior audit report. However, the Avondale Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- The Avondale Volunteer Firefighters' Relief Association, in all significant respects, received state aid 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.

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

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

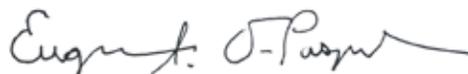
Finding No. 3 – Failure to Deposit Proceeds From A Jointly Purchased Vehicle

Finding No. 4 – Duplicate Payment

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with the management of the Avondale 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.

February 4, 2016



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 Avondale Fire Company No. 1 Relief Association, herein referred to as the Avondale 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 Avondale Volunteer Firefighters’ Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Avondale Borough	Chester	\$ 6,619	\$ 7,733	\$ 7,436
Franklin Township	Chester	\$ 3,356	\$ 3,814	\$ 3,577
London Britain Township	Chester	\$ 8,170	\$ 9,242	\$ 8,699
London Grove Township	Chester	\$ 21,843	\$ 24,888	\$ 24,161
New Garden Township	Chester	\$ 93,185	\$ 105,618	\$ 98,731
West Marlborough Township	Chester	\$ 1,633	\$ 1,956	\$ 1,817

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

Avondale Fire Company No. 1

Avondale Fire Company EMS Division

AVONDALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Avondale Volunteer Firefighters' Relief Association has complied with two of the four prior audit findings and recommendations, as follows:

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

- Failure To Maintain A Complete And Accurate Membership Roster

By maintaining a comprehensive listing of the relief association's membership.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Avondale Volunteer Firefighters' Relief Association has not complied with two of the four prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Undocumented Expenditures

Although the relief association received reimbursement in the amount of \$3,541 from the affiliated fire company on July 9, 2012 for the undocumented expenditures made during the prior period, a similar condition occurred during the current audit period as disclosed in Finding No. 1 of this report.

- Unauthorized Expenditures

Although the relief association received reimbursement from the affiliated fire company in the amount of \$2,219 on May 16, 2012 for the unauthorized expenditures made in the prior period, a similar condition occurred during the current audit period as disclosed in Finding No. 2 of this report.

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

AVONDALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: As disclosed in the Status of Prior Findings section of this report, although the relief association received reimbursement from the affiliated fire company for the undocumented expenditures made during the prior period, a similar condition occurred during the current audit period. The relief association was again unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
01/09/12	1868	Equipment vendor	\$ 948
01/25/12	1882	Credit card expense	432
05/09/12	1945	Credit card expense	14
05/09/12	1946	Credit card expense	77
05/16/12	1949	Credit card expense	1,073
05/21/12	1956	Credit card expense	382
05/30/12	1964	Credit card expense	317
05/30/12	1965	Credit card expense	97
09/04/12	2003	Credit card expense	119
10/26/12	2023	Equipment vendor	592
05/31/13	2118	Affiliated fire company	105
10/01/14	2320	Software vendor	1,899
Total			<u>\$ 6,055</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 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.

AVONDALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to establish adequate 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.

Recommendation: We again recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the expenditures or that the relief association be reimbursed \$6,055 for the undocumented expenditures. 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.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, subsequent to the audit period, the affiliated fire company reimbursed the relief association \$6,055 for the undocumented expenditures on November 25, 2015.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$6,055 was received. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

AVONDALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures

Condition: As disclosed in the Status of Prior Findings section of this report, although the relief association received reimbursement from the affiliated fire company for the unauthorized expenditures made in the prior period, a similar condition occurred during the current audit period. The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

Date	Check No.	Description	Amount
01/25/12	1882	Tobacco product	\$ 6
03/27/12	1916	Tobacco products	21
10/04/13	2169	Maintenance to a vehicle not owned by the relief association	492
Total			<u>\$ 519</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(10 and 11) states:

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

To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.

To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

Costs associated with the purchase of tobacco products and maintenance to a vehicle not owned by the relief association do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials indicated that they 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.

AVONDALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again recommend that the relief association be reimbursed \$519 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, as a result of our audit, subsequent to the audit period, the affiliated fire company reimbursed the relief association \$519 for the unauthorized expenditures on November 25, 2015.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$519 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No 3 – Failure To Deposit Proceeds From The Sale Of A Jointly Purchased Vehicle

Condition: Proceeds from the sale of a jointly purchased vehicle that occurred in 2009 in the amount of \$2,713 were never deposited into the relief association's bank account.

Criteria: Prudent business practice dictates that the relief association should closely monitor all assets sold to make sure proceeds are received and timely deposited into a relief association account.

Cause: Relief association officials failed to establish internal control procedures to ensure that all proceeds from the sale of a jointly purchased vehicle are timely deposited into a relief association account.

Effect: The failure to deposit the proceeds from the sale of a jointly purchased vehicle can lead to a greater risk that funds could be lost or misappropriated. As a result of the proceeds from the sale being deposited into a fire company account, the relief association was unable to use the funds to purchase replacement equipment, for general operating expenses, or for investment purposes.

AVONDALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the relief association be reimbursed \$2,713 for the erroneous deposit. We also recommend the relief association officials establish accounting and internal control procedures to ensure that the proceeds from all sales of jointly purchased vehicles are timely deposited into a relief association account. 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, subsequent to the audit period, the affiliated fire company reimbursed the relief association \$2,713 for the sale of the jointly purchased vehicle on November 25, 2015.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$2,713 was received. Continued compliance will be subject to verification through our next audit.

Finding No. 4 – Duplicate Payment

Condition: On May 21, 2012, the relief association expended \$1,587 for training related expenses. On May 30, 2012, the relief association erroneously made a duplicate payment for the same training related expenses. 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 adequate internal control procedures that require all invoices or other billing documents to 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: We recommend that the relief association be reimbursed \$1,587 for the erroneous duplicate payment. The relief association officials should consider contacting the vendor to recover the duplicate payment. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

AVONDALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, subsequent to the audit period, the affiliated fire company reimbursed the relief association \$1,587 for the duplicate payment on November 25, 2015.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$1,587 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

AVONDALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2014

Cash Balance:	\$	95,653
Fair Value of Investment Balance:	\$	195,106
Expenditures:		
Benefit Services:		
Insurance premiums	\$	27,301
Relief benefits		2,394
Tokens of sympathy and goodwill		1,292
Total Benefit Services	\$	<u>30,987</u>
Fire Services:		
Equipment purchased	\$	549,656
Equipment maintenance		76,797
Training expenses		98,296
Fire prevention materials		2,542
Total Fire Services	\$	<u>727,291</u>
Administrative Services:		
Other administrative expenses	\$	19,795
Bond premiums		1,880
Total Administrative Services	\$	<u>21,675</u>
Other Expenditures:		
Miscellaneous	\$	111
Undocumented expenditures		6,055
Unauthorized expenditures		519
Duplicate Payment		1,587
	\$	<u>8,272</u>

AVONDALE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Avondale Volunteer Firefighters' Relief Association Governing Body:

Mr. Bryan Franks	President
Mr. Brandon Michaels	Vice President
Ms. Jennifer Patton	Secretary
Ms. Erin Reed	Treasurer
Mr. Jason Wilkins	Assistant Treasurer

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

Ms. Becky Brownback Avondale Borough	Secretary
Mr. Steven C. Brown London Grove Township	Secretary
Mr. Lewis Gay New Garden Township	Secretary
Ms. Shirley K. Walton West Marlborough Township	Secretary
Ms. Sharon K. Norris Franklin Township	Secretary
Ms. Carolyn Matalon London Britain Township	Secretary

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