

COMPLIANCE AUDIT

The Eddystone Fire Company #1 Relief Association Delaware County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

December 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Bill Mateo, President
Eddystone Fire Company #1 Relief Association
Delaware County

We have conducted a compliance audit of the Eddystone Fire Company #1 Relief Association (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, 2013 to December 31, 2015.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding contained in our prior audit report.
2. To determine if the 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.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the 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. 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 the cash balance and the investment balance directly from the financial institutions. Therefore, while the relief association provided bank and investment statements that indicated that, as of December 31, 2015, the relief association had a cash balance of \$33,956 and an investment balance with a fair value of \$375,480, we were not able to verify those cash and investment balances.

In addition, based on our audit procedures, we conclude that, for the period January 1, 2013 to December 31, 2015:

- The 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.
- Except for the effects, if any, of the matter described in the preceding paragraph, the 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 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Untimely Receipt Of State Aid

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 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.

November 28, 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 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 volunteer firefighters' relief associations. The relief association's bylaws define the specific operational procedures by which the 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 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 that is or are recognized as providing the service to the municipality.

BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Eddystone Borough	Delaware	\$21,509*	\$20,196*	\$19,059*

* The 2013, 2014 and 2015 state aid allocations received from Eddystone Borough were not disbursed to the relief association timely, as disclosed in Finding No. 2 in this report.

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

The Eddystone Fire Company

THE EDDYSTONE FIRE COMPANY #1 RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with the prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure To Maintain And Complete And Accurate Equipment Roster

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.

THE EDDYSTONE FIRE COMPANY #1 RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain
A Complete And Accurate Equipment Roster**

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit period, the listing included all expenditures made during the audit period, including tokens of sympathy, training and insurance expenditures. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

A similar condition was noted in our prior audit report.

Criteria: Prudent business practice dictates that 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 equipment. A cumulative equipment roster of all relief association equipment should include all of 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
- Evidence of the performance and results of an annual physical inventory

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The continued 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 equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

THE EDDYSTONE FIRE COMPANY #1 RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding No. 1 – (Continued)

Recommendation: We again recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. 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 and indicated they will take action to comply with the recommendation.

Auditor’s Conclusion: We are concerned by the relief association’s failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 2 – Untimely Receipt Of State Aid

Condition: The relief association did not receive and deposit its 2013, 2014 and 2015 state aid allocations from Eddystone Borough in a timely manner. The foreign fire insurance tax allocations for 2013, 2014 and 2015 were distributed to the municipal treasurer on September 23, 2013, September 23, 2014 and September 23, 2015, respectively; however, municipal officials failed to forward these allocations to the relief association within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), as follows:

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2013	Eddystone Borough	\$ 21,509	December 31, 2014	January 16, 2014
2014	Eddystone Borough	\$ 20,196	Unknown*	January 28, 2015
2015	Eddystone Borough	\$ 19,059	January 15, 2016	February 1, 2016

* The date the municipality distributed the 2014 state aid to the relief association could not be determined because the borough failed to submit a Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this department as required by the instructions accompanying Form 706-B and the 2014 state aid allocation received by the municipality disclosing this information.

THE EDDYSTONE FIRE COMPANY #1 RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding No. 2 – (Continued)

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practices dictate that the relief association should establish adequate internal control procedures to ensure the funds are received and deposited in a timely manner.

Cause: Relief association officials indicated that municipal officials failed to distribute the annual state aid allocations to the relief association in a timely manner.

Effect: As a result of the untimely receipt and deposit of state aid, funds were not available to pay general operating expenses or for investment purposes. In addition, untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials adopt internal control procedures to monitor the municipality's annual distributions of state aid allocations to ensure the timely receipt and deposit of all future income received. 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.

THE EDDYSTONE FIRE COMPANY #1 RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2015

Cash	\$ 33,956
Fair Value of Investments	<u>375,480</u>
Total Cash and Investments	<u>\$ 409,436</u>

THE EDDYSTONE FIRE COMPANY #1 RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:	
Insurance premiums	\$ 2,853
Tokens of sympathy and goodwill	751
Total Benefit Services	<u>\$ 3,604</u>
Fire Services:	
Equipment purchased	\$ 110,263
Equipment maintenance	7,847
Training expenses	4,475
Fire prevention materials	1,739
Total Fire Services	<u>\$ 124,324</u>
Administrative Services:	
Officer compensation	\$ 3,000
Other administrative expenses	1,492
Bond premiums	200
Total Administrative Services	<u>\$ 4,692</u>
Total Expenditures	<u><u>\$ 132,620</u></u>

THE EDDYSTONE FIRE COMPANY #1 RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Eddystone Fire Company #1 Relief Association Governing Body:

Mr. Bill Mateo
President

Mr. Ben MacCumbee
Vice President

Mr. Allen Reeves
Secretary

Mr. Paul Sides
Treasurer

Mr. Dallas Walters
Chairman of the Board of Directors

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

Mr. Timothy Possenti
Secretary
Eddystone Borough

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, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.