



**MARCUS HOOK TRAINER FIRE DEPARTMENT RELIEF
ASSOCIATION**

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2012

RELEASED MARCH 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Raleigh Heacock, President
MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Marcus Hook Trainer 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, 2009 to December 31, 2012.

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 findings 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 Marcus Hook Trainer 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 Marcus Hook Trainer Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Marcus Hook Trainer Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2012, 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, 2009 to December 31, 2012, found the Marcus Hook Trainer Volunteer Firefighters' Relief Association took appropriate corrective action to address nine of the eleven findings contained in our prior audit report. However, the Marcus Hook Trainer Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining two findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Marcus Hook Trainer 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 in detail in the Findings and Recommendations section of this report. Therefore, the Marcus Hook Trainer Volunteer Firefighters' Relief Association will be subject to the potential withhold of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report. The results of our tests also indicated the Marcus Hook Trainer Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$32,456 and an investment balance with a fair value of \$200,438.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

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

Finding No. 3 – Failure to Secure Ownership in Jointly Purchased Equipment

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

July 10, 2013

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

Background.....	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster.....	5
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures	7
Finding No. 3 – Failure to Secure Ownership Interest in Jointly Purchased Equipment ...	9
Potential Withhold of State Aid.....	11
Accompanying Expenditure Information	12
Report Distribution List	14

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 Marcus Hook Trainer Fire Department Relief Association, herein referred to as Marcus Hook Trainer 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. The Marcus Hook Trainer Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Marcus Hook Borough	Delaware	\$13,795	\$15,527	\$25,466	\$14,421
Trainer Borough	Delaware	\$11,430	\$12,865	\$18,044	\$10,147

BACKGROUND (Continued)

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

Marcus Hook Trainer Fire Department

MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Marcus Hook Trainer Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Misappropriation of Relief Association Assets

By receiving reimbursement from the Marcus Hook Trainer fire department in the amount of \$11,640, on May 18, 2010 and June 9, 2011, for the assets that were identified as misappropriated assets during the prior audit period and establishing internal control procedures for the review and approval of all relief association transactions prior to payment.

- Unauthorized Expenditures

By receiving reimbursement from the Marcus Hook Trainer Fire Department, in the amount of \$3,890, on February 17, 2010, for the unauthorized expenditures made during the prior audit period.

- Improper Signatory Authority for the Disbursement of Funds

By requiring more than one signature on all negotiable instruments.

- Inadequate Minutes of Meetings

By maintaining detailed minutes of all relief association meetings.

- Insufficient Surety (Fidelity) Bond Coverage

By increasing the officer's Surety (Fidelity) bond coverage on January 13, 2010, to an amount greater than the balance of the relief association's cash assets.

- Inadequate Financial Record Keeping System

By establishing adequate accounting procedures that meets the minimum financial record keeping requirements of this department.

- Duplicate Payment

By receiving reimbursement from the Marcus Hook Trainer Fire Department, in the amount of \$140, on May 18, 2010, for the duplicate payment.

MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS (Continued)

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS –
(Continued)

- Failure to Maintain a Complete and Accurate Membership Roster

By maintaining a comprehensive listing of relief association membership.

- Payment of Pennsylvania Sales Tax

By furnishing its state sales tax exemption number to all vendors from which the relief association purchases equipment and services.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Membership Roster
- Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Even though the relief association was reimbursed \$16,865, on May 18, 2010, for the undocumented expenditures identified during the prior audit, the relief association was unable to provide adequate supporting documentation for \$3,255 of expenditures made during the current audit period, as discussed in Finding No. 2 contained in this report.

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

MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our prior audit reports, the relief association officials failed to maintain a complete and accurate roster of equipment owned by the relief association. Even though a roster of equipment was provided during the current audit engagement, it was not cumulative. Also, the equipment roster lacked dates of purchase, unit costs, and names of suppliers. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all of the relief association's owned equipment.

Criteria: 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 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; and
- Evidence of the results of an annual physical inventory.

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

Effect: The 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.

Furthermore, the relief association's continued failure to maintain a complete and accurate equipment roster and to ensure that annual physical inventories of relief association owned equipment are conducted, and the results properly documented, the relief association is subject to a withholding of its state aid, as detailed on page 11 of this report.

MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS – (Continued)

Finding No. 1 – (Continued)

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

MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS – (Continued)

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

Condition: As disclosed in the Status of Prior Findings section of this report, although the relief association was reimbursed \$16,865, on May 18, 2010, for the undocumented expenditures identified during the prior audit, the relief association was unable to provide adequate supporting documentation for \$3,255 of expenditures made during the current audit period for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
08/02/09	2002	\$ 1,200
04/08/10	2043	525
11/21/11	2134	530
11/28/12	2204	500
12/01/12	2211	500
Total		<u>\$ 3,255</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 invoices, 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 verify the propriety of all financial transactions.

Cause: Even though notified of this condition during the prior audit period, relief association officials, again, neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS – (Continued)

Finding No. 2 – (Continued)

Effect: Lack of supporting documentation, such as invoices, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). Furthermore, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated. Finally, as a result of these undocumented expenditures, the relief association is subject to a withholding of its state aid, as detailed on page 11 of this report.

Recommendation: We, again, recommend the relief association provide this department with adequate supporting documentation, such as invoices, to evidence the validity of the expenditures or that the relief association be reimbursed \$3,255 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 indicated they will take action to comply with the recommendation.

MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS– (Continued)

Finding No. 3 – Failure to Secure Ownership Interest in Jointly Purchased Equipment

Condition: During our prior audit, we verbally cited the relief association for \$25,752 expended on July 21, 2007, for the purpose of jointly purchasing bunker gear with the Marcus Hook Trainer Fire Department. However, the relief association failed to adequately secure its ownership interest in the jointly purchased equipment as a formal written agreement between the relief association and the affiliated fire company was not executed.

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 equipment 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 this type of equipment, in the event this equipment is ever sold.

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

Effect: Failure to adequately secure the proportional share of ownership interest in the jointly purchased equipment places the relief association's ownership interest at greater risk. Furthermore, as a result of the unsecured ownership of jointly purchased equipment, the relief association is subject to withhold of its state aid, as detailed on page 11 of this report.

MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS– (Continued)

Finding No. 3 - (Continued):

Recommendation: We recommend the relief association execute a formal written agreement with the affiliated fire company that enumerates the relief association's proportional ownership interest in the jointly purchased equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the equipment is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$25,752. 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.

MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions of repeat findings such as those reported in Finding Nos. 1 and 2 and a condition such as that reported in Finding No. 3, contained in this report, will lead to a total withholding of state aid in the future unless those findings are corrected. However, such action will not be taken 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 Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2012

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	\$ 24,515
Death benefits	16,000
Relief benefits	297
Tokens of sympathy and goodwill	1,456
Total Benefit Services	\$ 42,268
Fire Services:	
Equipment purchased	\$ 82,743
Equipment maintenance	27,449
Training expenses	22,652
Fire prevention materials	2,250
Total Fire Services	\$ 135,094
Administrative Services:	
Officer compensation	\$ 1,050
Other administrative expenses	25,657
Total Administrative Services	\$ 26,707
Total Investments Purchased:	\$ 336,000

MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION - (Continued)
FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2012

Other Expenditures:	
Undocumented expenditures	\$ 3,255
Total Other Expenditures	<u>\$ 3,255</u>

MARCUS HOOK TRAINER VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Marcus Hook Trainer Volunteer Firefighters' Relief Association Governing Body:

Mr. Raleigh Heacock, President

Mr. Daniel Smith, Financial Secretary

Mr. Kenneth S. Smith, Jr., Secretary

Ms. Paula M. Ewing, Treasurer

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

Ms. Aubrey E. Mulholland, Secretary
Marcus Hook Borough

Ms. Victoria Okolowski, Secretary
Trainer Borough

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. 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@auditorgen.state.pa.us.