

COMPLIANCE AUDIT

The Martin's Corner Firemen's Relief Association Chester County, Pennsylvania For the Period January 1, 2012 to May 23, 2014

May 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Ms. Linda Formica, Municipal Secretary
West Brandywine Township

We have conducted a compliance audit of the former Martin's Corner Firemen's 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, 2012 to May 23, 2014.

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.

Based on our audit procedures, we conclude that, for the period January 1, 2012 to May 23, 2014:

- We were unable to determine if former officials of the former relief association took appropriate corrective action to address the finding contained in our prior audit report as disclosed in the Status of Prior Finding section of this report.
- Because of the significance of the matters described in the findings listed below and discussed later in this report, the former relief association did not, in all significant respects, expend state aid and accumulated relief funds in compliance with applicable laws, contracts, bylaws, and administrative procedures. However, on April 10, 2014, the former relief association agreed to merge with the Keystone Valley Volunteer Firefighters' Relief Association and on May 23, 2014, transferred all remaining monetary assets, physical equipment, and financial records to the Keystone Valley Volunteer Firefighter' Relief Association. Due to the dissolution of the former relief association, we conducted the audit with officials of the Keystone Valley Volunteer Firefighters' Relief Association.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Inadequate Internal Controls

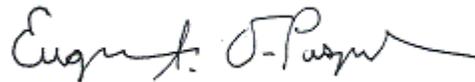
Finding No. 3 – Inadequate Record-Keeping System

We forwarded the results of this audit to the Chester County District Attorney's Office and recommended that they determine whether any criminal laws of this Commonwealth have been violated and/or for whatever other action it may deem appropriate.

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 Keystone Valley Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report. We would like to thank officials of the Keystone Valley Volunteer Firefighters' Relief Association for the cooperation extended to us during the conduct of the audit.

April 21, 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 former 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 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2012*</u>
West Brandywine Township	Chester	\$ 6,241
West Caln Township	Chester	\$ 30,176

* Beginning in 2013, the municipalities no longer supported the former relief association and discontinued the distribution of state aid to the former relief association.

On April 10, 2014, a meeting was held and a motion approved to merge the former relief association with the Keystone Valley Volunteer Firefighters’ Relief Association. The former relief association agreed to transfer all of its monetary and physical assets to the Keystone Valley Volunteer Firefighters’ Relief Association. On May 23, 2014, the former relief association transferred all remaining monetary and physical assets to the Keystone Volunteer Firefighters’ Relief Association.

A volunteer firefighters’ relief association and its affiliated fire service organization are separate, legal entities. The former relief association was affiliated with the following fire service organization:

Martin’s Corner Volunteer Fire Company

THE MARTIN'S CORNER FIREMEN'S RELIEF ASSOCIATION
STATUS OF PRIOR FINDING AND RECOMMENDATION

STATUS OF PRIOR AUDIT FINDING AND RECOMMENDATION

Failure to Disclose Related Party Transactions

As disclosed in the prior audit report, former relief association officials failed to disclose related party transactions to the relief association membership. The former relief association did business with a vendor that employed a relief association officer. During the prior audit period, the relief association expended \$2,667 with this vendor for equipment and equipment repairs.

Ethics laws state that all potential related party transactions should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, all officers and/or members involved with a business that is party to the related party transaction should abstain from all votes concerning such transactions.

We recommended that former relief association officials take the actions necessary to eliminate the appearance of conflicts of interests. Actions that included, but were not limited to, written notification to the relief association membership for each related party transaction, and the abstention from decisions and voting rights by the relief association officials who are involved owners of businesses that have business dealings with the relief association. These actions should be documented in the relief association's minutes. Furthermore, the relief association should closely review all related party transactions to ensure that all transactions are at arm's length, i.e., the cost of the services rendered by the firm is competitive.

During the current audit period, the former relief association did not provide membership rosters or minutes of meetings; therefore, we were unable to determine if the former relief association complied with our prior audit recommendation or if any of the transactions that occurred during the current audit period involved related parties of interest. However, since the former relief association dissolved and subsequently transferred all remaining monetary assets and equipment to Keystone Valley Volunteer Firefighter's Relief Association, we recommend that current officials take the necessary actions to eliminate the appearance of conflicts of interests including, but not limited to, written notification to the relief association membership for each related party transaction and the abstention from decisions and voting rights by the relief association officials who are involved owners of businesses that have business dealings with the relief association for future transactions involving the relief association.

THE MARTIN'S CORNER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: The former relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

Date	Check No.	Payee Description	Amount
03/04/12	1084	Training vendor	\$ 50
04/16/12	1091	Governmental entity (vehicle purchase)	12,000
07/04/12	Debit	Food merchant	29
11/21/12	Debit	Auto repair merchant	152
02/18/13	1136	Equipment vendor	66
02/18/13	1137	Training vendor	400
03/31/13	1138	Training vendor	255
05/06/13	Debit	Equipment vendor	350
05/20/13	1141	Individual reimbursement	70
06/08/13	Debit	Postage retailer (USPS)	2
06/21/13	Debit	Restaurant merchant	84
07/05/13	Debit	Restaurant merchant	78
08/14/13	Debit	Restaurant merchant	155
08/24/13	Debit	Restaurant merchant	66
09/04/13	1160	Food merchant	69
09/11/13	1165	Individual reimbursement	90
09/19/13	Debit	Convenience store	7
09/19/13	Debit	Restaurant merchant	4
09/19/13	Debit	Restaurant merchant	8
09/19/13	Debit	Withdrawal	80
09/26/13	Debit	On-line retailer	82
09/28/13	Debit	On-line retailer	80
10/11/13	Debit	Restaurant merchant	79
11/01/13	Debit	Restaurant merchant	67
11/05/13	Debit	Restaurant merchant	2
11/05/13	Debit	Restaurant merchant	12
11/06/13	Debit	Convenience store	81
11/07/13	Debit	Toll vendor (EZ Pass)	35
11/07/13	Debit	Restaurant merchant	2
11/07/13	Debit	Restaurant merchant	13
11/08/13	Debit	Restaurant merchant	2

THE MARTIN'S CORNER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Date	Check No.	Payee Description	Amount
11/08/13	Debit	Restaurant merchant	11
11/09/13	Debit	Convenience store	70
11/09/13	Debit	Restaurant merchant	2
11/11/13	Debit	Restaurant merchant	5
11/12/13	Debit	Restaurant merchant	12
11/12/13	Debit	Restaurant merchant	4
11/13/13	Debit	Restaurant merchant	6
11/13/13	Debit	Restaurant merchant	12
11/13/13	Debit	Restaurant merchant	10
11/14/13	Debit	Fuel merchant	77
11/14/13	Debit	Toll vendor (EZ Pass)	35
11/14/13	Debit	Restaurant merchant	2
11/14/13	Debit	Restaurant merchant	9
11/16/13	Debit	Convenience store	78
11/16/13	Debit	Restaurant merchant	4
11/23/13	Debit	Restaurant merchant	43
12/04/13	1167	Individual reimbursement	356
12/18/13	1168	Individual reimbursement	876
01/08/14	1169	Affiliated fire company	5,000
01/15/14	Debit	Restaurant merchant	130
Total \$			21,212

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: Officers of the former relief association were not available during the audit and did not provide the appropriate records to validate the propriety of these expenditures to officers of Keystone Valley Volunteer Firefighter's Relief Association during the merger.

THE MARTIN'S CORNER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 use of debit or credit cards increases the risk for relief association expenditures to lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: Due to the merger of the former relief association, we are providing officials of the Keystone Valley Volunteer Firefighters' Relief Association with copies of this report so they are aware of conditions that were detected during the audit. We recommend that the Keystone Valley Volunteer Firefighters' Relief Association's officials attempt to obtain adequate supporting documentation, such as invoices, to evidence the propriety of the expenditures noted above or seek reimbursement for \$21,212 for the undocumented expenditures. We also recommend that Keystone Valley Volunteer Firefighters' 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: Keystone Valley Volunteer Firefighters' Relief Association's 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 of the Keystone Valley Volunteer Firefighters' Relief Association.

Finding No. 2 – Inadequate Internal Controls

Condition: The former relief association failed to establish adequate internal controls. The following significant internal control weaknesses existed during the audit period:

- Infrequent relief association meetings.
- Meeting minutes were not provided.
- Documentation to support propriety of expenditures was not provided as discussed in Finding No. 1.
- The relief association did not maintain an equipment roster.
- The relief association did not maintain a membership roster.
- Financial related activities were not presented, discussed, and approved at relief association meetings.

THE MARTIN'S CORNER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

- Documentation to evidence the sale of a 1998 Ford (identified as the Chief's vehicle) and the transfer of equipment from the former relief association to the Keystone Valley Volunteer Firefighter's Relief Association was not maintained.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

... must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, Article II, Section 1 of the relief association's bylaws states, in part:

“Regular meeting of this association shall be held on the second Thursday of each month...”

Article IV, Section 2 of the relief association's bylaws states, in part:

“The treasurer shall keep a journal and ledger which details all financial transactions of the association and shall maintain all documentation supporting the receipts and disbursements made by the association.”

Furthermore, prudent business practice dictates that:

- Meetings should be conducted more frequently than quarterly.
- Original invoices shall be required prior to payment of purchases.
- All purchases shall be presented to the association membership for discussion and approval.
- Detailed meeting minutes must be maintained to accurately document relief association business.
- Periodic physical inventories of equipment owned.

Cause: Former relief association officials failed to establish adequate internal controls to ensure the propriety of expenditures and proper documentation of relief association transactions and ensure the appropriate transfer of all of these financial records and documents to Keystone Valley Volunteer Firefighter's Relief Association during the merger.

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets and prevented the verification as to whether relief association business was presented before the membership for discussion and approval. Furthermore, the lack of effective internal controls places the relief association funds at greater risk for misappropriation.

THE MARTIN'S CORNER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: Due to the merger of the former relief association, we are providing officials of the Keystone Valley Volunteer Firefighters' Relief Association with copies of this report so they are aware of conditions that were detected during the audit. We recommend that the Keystone Valley Volunteer Firefighters' Relief Association's officials establish and maintain internal control procedures which will require the following:

- More frequent membership meetings.
- Payment of purchases only from original invoices.
- Prohibition of cash purchases.
- Presentation, discussion, and approval of financial activities at relief association meetings.
- Maintenance of detailed meeting minutes.
- Periodic physical inspections of equipment owned.
- Documentation of all expenditures.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION.

Management's Response: Keystone Valley Volunteer Firefighters' Relief Association's management agreed with the finding as presented at the audit exit conference.

Auditor's Conclusion: Compliance will be subject to verification through our next audit of the Keystone Valley Volunteer Firefighters' Relief Association.

Finding No. 3 – Inadequate Financial Record-Keeping System

Condition: The former relief association's financial record-keeping system did not establish adequate accounting procedures to allow the membership to effectively monitor the former relief association's financial operations and to provide effective control over cash receipts, disbursements, and assets. The following are the noted deficiencies:

- A journal was not maintained to record the receipts and disbursements of the relief association for the entire audit period.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Several bank statements were not maintained and had to be requested through the bank.

THE MARTIN'S CORNER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

- Documentation to support various expenditures was not available for examination at the time of the audit.
- Evidence of the sale of equipment was not provided.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states:

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association assets.

Cause: The former relief association's officers did not submit to Keystone Valley Volunteer Firefighters' Relief Association's officials the records needed to document and support all transactions of the former relief association. Furthermore, current officials indicated that the records were given to them in the condition in which these records were presented to the auditor.

Effect: The failure of former relief association officials to maintain adequate records prohibited the former membership from effectively monitoring the relief association's financial operations.

Recommendation: Due to the merger of the former relief association, we are providing officials of the Keystone Valley Volunteer Firefighters' Relief Association with copies of this report so they are aware of conditions that were detected during the audit. We recommend that the Keystone Valley Volunteer Firefighters' Relief Association's officials establish and maintain a financial record-keeping system that allows its membership to effectively monitor the relief association's financial operations and provides effective control over cash receipts, disbursements, and assets. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Keystone Valley Volunteer Firefighters' Relief Association's management agreed with the finding as presented at the audit exit conference.

Auditor's Conclusion: Compliance will be subject to verification through our next audit of the Keystone Valley Volunteer Firefighters' Relief Association.

THE MARTIN'S CORNER FIREMEN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 FOR THE PERIOD JANUARY 1, 2012 TO MAY 23, 2014

Cash Balance:	\$	0
Fair Value of Investment Balance:	\$	0
Expenditures:		
Benefit Services:		
Insurance premiums	\$	<u>4,941</u>
Fire Services:		
Equipment purchased	\$	29,458
Equipment maintenance		20,882
Training expenses		<u>6,422</u>
Total Fire Services	\$	<u><u>56,762</u></u>
Administrative Services:		
Other administrative expenses	\$	4,595
Bond premiums		<u>724</u>
Total Administrative Services	\$	<u><u>5,319</u></u>
Total Investments Purchased	\$	<u><u>136,516</u></u>
Other Expenditures:		
Miscellaneous	\$	213
Undocumented expenditures		21,214
Transfer of monetary assets*		<u>78,617</u>
Total Other Expenditures	\$	<u><u>100,044</u></u>

*Transfer of Monetary Assets/Dissolution of Former Relief Association.

As of April 10, 2014, the former relief association agreed to merge with Keystone Valley Volunteer Firefighters' Relief Association. Consequently, all remaining monetary assets were transferred to the Keystone Valley Volunteer Firefighters' Relief Association on May 23, 2014.

THE MARTIN'S CORNER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Keystone Valley Volunteer Firefighters' Relief Association Governing Body:

Mr. Jared Dalmas
President

Mr. Raymond Campbell
Vice President

Ms. Penny Knotts
Secretary

Mr. Tony Przychodzien
Treasurer

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

Ms. Linda Formica
Secretary
West Brandywine Township

Mr. Gary L. Dunlap
West Caln Township

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.