

COMPLIANCE AUDIT

Aston-Beechwood Volunteer Fire Company Relief Association Delaware County, Pennsylvania For the Period January 1, 2014 to June 18, 2019

July 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. John Moletteri, President
Aston-Beechwood Volunteer Fire
Company Relief Association
Delaware County

We have conducted a compliance audit of the former Aston-Beechwood Volunteer Fire Company 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, 2014 to June 18, 2019.

The objectives of the audit were:

1. To determine if the former relief association took appropriate corrective action to address the findings contained in our prior audit report.
2. To determine if the former relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds.

Our audit was limited to the areas related to the objectives identified above and was not required to be and was not conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

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 copies of canceled or imaged checks from the former relief association. While the former relief association provided copies of bank statements, the former relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two former relief association officers authorized and signed the checks as required by Act 118.

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, 2014 to June 18, 2019:

- The former relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the former relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- The former relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Record-Keeping System

Finding No. 2 – Improper Merger

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

Finding No. 4 – Unauthorized Expenditures

The four findings contained in this report cite conditions that existed in the operation of the former relief association during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

In addition, as of June 18, 2019, the former relief association completed the process of dissolution and merged with the Relief Association Of The Green Ridge Volunteer Fire Company No. 1 to form The Aston Township Volunteer Fireman's Relief Association. Consequently, all remaining monetary assets and equipment were transferred to The Aston Township Volunteer Fireman's Relief Association.

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 former relief association and, where appropriate, their responses have been included in the report.

July 23, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

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. Relief association bylaws define the specific operational procedures by which relief associations conduct 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 relief associations 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 former relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2014</u>
Aston Township	Delaware	\$61,007

**Although The Aston Township Volunteer Fireman’s Relief Association was formed as of July 29, 2015, the former relief association did not fully merge and complete the process of dissolution until June 18, 2019 when the final remaining assets were transferred to The Aston Township Volunteer Fireman’s Relief Association. Thereafter, the former relief association did not receive any further state aid allocations after the year 2014. (See Supplementary Financial Information)

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

Aston-Beechwood Fire Co

ASTON-BEECHWOOD VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The former relief association has complied with one of the two prior audit findings and recommendations, as follows:

- Failure To Secure Ownership Interest In Jointly Purchased Vehicle

By executing a written formal agreement with the affiliated fire company that adequately secures its proportional ownership interest in the jointly purchased vehicle.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Inadequate Financial Record-Keeping System

We are concerned by the former relief association's failure to correct this previously reported audit finding. Since the former relief association dissolved its organization and consequently transferred its monetary assets to The Aston Township Volunteer Fireman's Relief Association, The Aston Township Volunteer Fireman's Relief Association's management should strive to implement the recommendations and corrective actions noted in this audit report.

ASTON-BEECHWOOD VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – 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 relief association’s financial operations. The following are the noted deficiencies:

- The former relief association did not provide documentation to support an undocumented expense of \$930 from the prior audit period or receive reimbursement for that amount. In addition, during the current audit period, the former relief association had undocumented expenses totaling \$202.
- Documentation to support several other expenditures was not available for examination at the start of the audit.
- Invoices were commingled with invoices related to the affiliated fire company and The Aston Township Volunteer Fireman’s Relief Association.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(a) of Act 118 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: Even though notified of this condition during our prior audit, former relief association officials again neglected their various record-keeping responsibilities.

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

ASTON-BEECHWOOD VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: Due to the dissolution of the former relief association and subsequent transfer of its remaining assets to The Aston Township Volunteer Fireman’s Relief Association, we are providing officials of The Aston Township Volunteer Fireman’s Relief Association copies of this report so they are aware of the conditions that were detected during the course of the audit of the former relief association. We recommend that The Aston Township Volunteer Fireman’s Relief Association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association’s financial operations. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

Management’s Response: Former relief association management agreed with the finding as presented at the audit exit conference.

Auditor’s Conclusion: We are concerned by the former relief association’s failure to correct this previously reported audit finding. Since the former relief association dissolved its organization and consequently transferred its monetary assets to The Aston Township Volunteer Fireman’s Relief Association, The Aston Township Volunteer Fireman’s Relief Association’s management should strive to implement the recommendation and corrective action noted in this audit report.

Finding No. 2 – Improper Merger

Condition: The former relief association failed to complete the minimum administrative procedures necessary to properly merge with the Relief Association Of The Green Ridge Volunteer Fire Company No. 1 Of Aston Township, Delaware County, State Of Pennsylvania to form The Aston Township Volunteer Fireman’s Relief Association. Although the former relief association documented the approval of the membership for the merger, officials failed to effectively complete the merger by not performing the following:

- Transferring equipment to the newly formed relief association.
- Re-titling all vehicles owned by the former relief association in the name of the newly formed relief association.
- Failing to provide its federal tax identification number to the financial institution for its brokerage account, which was not transferred to the new relief association until after the audit was started.

ASTON-BEECHWOOD VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Prudent business practice dictates that the former relief association should have maintained sole ownership of all equipment purchased by the former relief association. As such, rescue vehicles purchased by the former relief association should have been titled in the name of the former relief association.

Additionally, all businesses, profit and nonprofit, are required to provide their tax identification number to any financial institution where funds are earning interest. If a tax identification number is not provided, the financial institution is required to withhold 31 percent of interest earned and transmit these funds to the Internal Revenue Service.

Cause: Former relief association officials were unaware of the importance of all the administrative provisions of Act 118 identified above.

Effect: As a result of the equipment and vehicles being inappropriately titled in the name of the former relief association, the new relief association assets were not properly safeguarded. Additionally, the failure to report the federal tax identification number to the financial institution may cause the new relief association to lose funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: Due to the dissolution of the former relief association and subsequent transfer of its remaining assets to The Aston Township Volunteer Fireman's Relief Association, we are providing officials of The Aston Township Volunteer Fireman's Relief Association copies of this report so they are aware of the conditions that were detected during the course of the audit of the former relief association. We recommend that The Aston Township Volunteer Fireman's Relief Association officials perform the following:

- Transfer the equipment to the newly formed relief association.
- Re-title all vehicles owned by the former relief association in the name of the newly formed relief association.
- Transfer ownership of the brokerage account to the newly formed relief association.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Former relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, one of the four vehicles were retitled in the name of the new relief association and the brokerage account was transferred to the new relief association on June 18, 2019.

ASTON-BEECHWOOD VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Auditor’s Conclusion: We reviewed the documentation verifying the retitle of the one vehicle and the transfer of ownership of the brokerage account on June 18, 2019. Since the former relief association dissolved its organization and consequently transferred its monetary assets to The Aston Township Volunteer Fireman’s Relief Association, The Aston Township Volunteer Fireman’s Relief Association’s management should strive to implement the remaining recommendation and corrective action noted in this audit report.

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

Condition: The former relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. The former relief association’s Surety (Fidelity) bond coverage expired on May 20, 2014, even though they did not complete transferring all assets to the new relief association until June 18, 2019.

Criteria: Section 7415(c)(4) of Act 118 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: Former 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 former relief association not being bonded, the former relief association’s cash assets were not adequately safeguarded.

ASTON-BEECHWOOD VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: Due to the dissolution of the former relief association and subsequent transfer of its remaining assets to The Aston Township Volunteer Fireman’s Relief Association, we are providing officials of The Aston Township Volunteer Fireman’s Relief Association copies of this report so they are aware of the conditions that were detected during the course of the audit of the former relief association. We recommend that The Aston Township Volunteer Fireman’s Relief Association officials ensure they continue to maintain 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: Former relief association management agreed with the finding as presented at the audit exit conference.

Auditor’s Conclusion: Since the former relief association dissolved its organization and consequently transferred its monetary assets to The Aston Township Volunteer Fireman’s Relief Association, The Aston Township Volunteer Fireman’s Relief Association’s management should strive to implement the recommendation and corrective action noted in this audit report.

Finding No. 4 – Unauthorized Expenditure

Condition: The former relief association expended \$494 for attorney expenses not related to former relief association business during the current audit period that is not authorized by Act 118.

Criteria: Section 7416(f) of Act 118 states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

Costs associated with attorney fees that are not related to relief association business do not qualify as an authorized volunteer firefighters’ relief association expenditure; consequently, this disbursement is not authorized under Act 118.

ASTON-BEECHWOOD VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Cause: Former relief association officials indicated that they were unaware that the expenditure for the attorney fees were not authorized by Act 118.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

Recommendation: Due to the dissolution of the former relief association and subsequent transfer of its remaining assets to The Aston Township Volunteer Fireman's Relief Association, we are providing officials of The Aston Township Volunteer Fireman's Relief Association copies of this report so they are aware of the conditions that were detected during the course of the audit of the former relief association. We recommend that The Aston Township Volunteer Fireman's Relief Association officials be reimbursed \$494 for the unauthorized expenditure and that new relief association officials become familiar with Section 7416(f) of Act 118 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: Former relief association management agreed with the finding as presented at the audit exit conference.

Auditor's Conclusion: Since the former relief association dissolved its organization and consequently transferred its monetary assets to The Aston Township Volunteer Fireman's Relief Association, The Aston Township Volunteer Fireman's Relief Association's management should strive to implement the recommendation and corrective action noted in this audit report.

ASTON-BEECHWOOD VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF JUNE 18, 2019

Cash and Investments	<u>\$ 0</u>
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ASTON-BEECHWOOD VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2014 TO JUNE 18, 2019

Expenditures:

Benefit Services:	
Insurance premiums	\$ 20,587
Fire Services:	
Equipment purchased	\$ 93,215
Equipment maintenance	26,566
Training expenses	4,625
Total Fire Services	\$ 124,406
Administrative Services:	
Other administrative expenses	\$ 2,442
Total Investments Purchased	\$ 10,990
Other Expenditures:	
Payments on loan	\$ 23,252
Transfer of monetary assets*	2,007
Undocumented expenditures	202
Unauthorized/Duplicate expenditure	494
Total Other Expenditures	\$ 25,955
Total Expenditures	\$ 184,380

* Transfer of Monetary Assets/Dissolution of Relief Association.

As of June 18, 2019, the former relief association completed the process of dissolution and merged with the Relief Association Of The Green Ridge Volunteer Fire Company No. 1 to form The Aston Township Volunteer Fireman's Relief Association. Consequently, all remaining monetary assets and equipment were transferred to The Aston Township Volunteer Fireman's Relief Association. Due to the dissolution of the former relief association, we are providing officials of The Aston Township Volunteer Fireman's Relief Association copies of this report.

ASTON-BEECHWOOD VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Aston-Beechwood Volunteer Fire Company Relief Association Governing Body:

Mr. John Moletteri
President

The Aston Township Volunteer Fireman's Relief Association Governing Body:

Mr. Michael Lucy
President

Mr. Sean Joyce
Vice President

Mr. Robert Denney
Secretary

Mr. John Moletteri
Treasurer

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

Mr. Richard D. Lehr
Secretary
Aston Township

ASTON-BEECHWOOD VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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.