

COMPLIANCE AUDIT

The Avondale Fire Company No. 1 Relief Association Chester County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

November 2019



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Bryan Franks, President
The Avondale Fire Company No. 1
Relief Association
Chester County

We have conducted a compliance audit of The Avondale Fire Company No. 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, 2017 to December 31, 2018.

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 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 an independent confirmation of the cash balance directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2018, the relief association had a cash balance of \$238,092, we were not able to verify this cash balance.

Based on our audit procedures, we conclude that, for the period January 1, 2017 to December 31, 2018:

- 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, 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 –
Undocumented Expenditures

Finding No. 2 – Unauthorized Expenditures

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 4, 2019



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. 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 relief association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>
Avondale Borough	Chester	\$ 6,316	\$ 5,753
Franklin Township	Chester	\$ 3,233	\$ 2,939
London Britain Township	Chester	\$ 7,521	\$ 6,826
London Grove Township	Chester	\$22,239	\$20,221
New Garden Township	Chester	\$87,368	\$79,263
West Marlborough Township	Chester	\$ 2,852	\$ 2,598

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

Avondale Fire Company EMS Division

Avondale Fire Company No. 1

THE AVONDALE FIRE COMPANY NO. 1 RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Undocumented Expenditures

Although the relief association received reimbursement of \$500 from the affiliated fire company for the undocumented expenditures that were made in the prior audit period, the relief association again failed to provide adequate documentation to support all expenditures in the current audit period as further disclosed in Finding No. 1 of this report.

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 AVONDALE FIRE COMPANY NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: Although the relief association received reimbursement from the affiliated fire company for the undocumented expenditures that were made in the prior audit period, the relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
03/06/17	1156	Credit card payment	\$ 83
04/30/17	1169	Credit card payment	18
06/01/17	1190	Credit card payment	86
08/30/17	1215	Credit card payment	262
10/02/17	1225	Credit card payment	24
02/01/18	1272	Credit card payment	295
03/01/18	1284	Credit card payment	107
04/30/18	1316	Credit card payment	139
Total			<u>\$ 1,014</u>

Criteria: Section 7418(a) of Act 118 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 invoices and/or itemized receipts, 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: Even though notified of this condition during our prior audit, relief association officials again neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

THE AVONDALE FIRE COMPANY NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of Act 118. In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$1,014 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General’s publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS’ RELIEF ASSOCIATIONS.

Management’s Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the affiliated fire company reimbursed the relief association \$1,014 for the undocumented expenditures on September 25, 2019.

Auditor’s Conclusion: We reviewed documentation verifying that the reimbursement of \$1,014 was received. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/13/17	1145	Training for career (paid) personnel	\$ 150
03/13/17	1159	Training for career (paid) personnel	360
07/28/17	1203	Repair of fire company vehicle	2,332
03/29/18	1294	Training for career (paid) personnel	130
07/30/18	1344	Training for career (paid) personnel	10
Total			<u>\$ 2,982</u>

THE AVONDALE FIRE COMPANY NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

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

As such, costs associated with the repair of a fire company vehicle and the training of career (paid) personnel do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118.

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

Recommendation: We recommend that the relief association be reimbursed \$2,982 for the unauthorized expenditures and that 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: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the affiliated fire company reimbursed the relief association \$2,982 for the unauthorized expenditures on September 25, 2019.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$2,982 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

THE AVONDALE FIRE COMPANY NO. 1 RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2018

Cash	\$ 238,092
Fair Value of Investments	<u>41,262</u>
Total Cash and Investments	<u>\$ 279,354</u>

THE AVONDALE FIRE COMPANY NO. 1 RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:

Insurance premiums	\$ 18,754
Death benefits	15,000
Relief benefits	22,180
Tokens of sympathy and goodwill	3,054
Total Benefit Services	<u>\$ 58,988</u>

Fire Services:

Equipment purchased	\$ 123,328
Equipment maintenance	80,278
Training expenses	33,679
Total Fire Services	<u>\$ 237,285</u>

Administrative Services:

Other administrative expenses	\$ 5,711
Bond premiums	1,240
Total Administrative Services	<u>\$ 6,951</u>

Other Expenditures:

Undocumented expenditures	\$ 1,014
Unauthorized expenditures	2,982
Total Other Expenditures	<u>\$ 3,996</u>

Total Expenditures	<u><u>\$ 307,220</u></u>
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THE AVONDALE FIRE COMPANY NO. 1 RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Avondale Fire Company No. 1 Relief Association Governing Body:

Mr. Bryan Franks
President

Mr. Brandon Michaels
Vice President

Ms. Nicole Cole
Secretary

Ms. Erin Reed
Treasurer

Mr. John Morris
Assistant Secretary

THE AVONDALE FIRE COMPANY NO. 1 RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Ms. Rebecca Brownback
Secretary
Avondale Borough

Ms. Sharon K. Norris
Secretary
Franklin Township

Ms. Carolyn Matalon
Secretary
London Britain Township

Ms. Dawn Maciejczyk
Secretary
London Grove Township

Mr. Lewis Gay
Secretary
New Garden Township

Ms. Shirley K. Walton
Secretary
West Marlborough 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.