

# COMPLIANCE AUDIT

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## Castle Shannon Volunteer Firemen's Relief Association Allegheny County, Pennsylvania For the Period January 1, 2013 December 31, 2016

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November 2017



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. David Kosmer, President  
Castle Shannon Volunteer Firemen's  
Relief Association  
Allegheny County

We have conducted a compliance audit of the Castle Shannon Volunteer 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, 2013 December 31, 2016.

The objective of the audit was 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 objective 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 objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, because of the significance of the matters described in the findings below and discussed later in this report, the relief association did not, in all significant respects, comply 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, collectively as a whole, for the period January 1, 2013 December 31, 2016. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

- Finding No. 1 – Accounts in the Name of the Relief Association Registered Under The Affiliated Fire Service Organization’s Federal Tax Identification Number
- Finding No. 2 – Undocumented Expenditures
- Finding No. 3 – Inadequate Internal Controls
- Finding No. 4 – Inadequate Signatory For The Disbursement of Funds
- Finding No. 5 – Failure To Maintain A Complete And Accurate Membership Roster
- Finding No. 6 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number
- Finding No. 7 – Inadequate Minutes Of Meetings And Disclosure Of Related Party Transactions

The seven findings contained in this report cite conditions that existed in the operation of the relief association. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report. Noncompliance and/or untimely corrective action to address the multitude of conditions noted in the above findings could result in a disruption of future state aid funding available as noted above and in the Potential Withhold State Aid section of this report or a shortage in funds available for other authorized operating expenses or for investment purposes and a greater risk that funds could be lost or misappropriated.

We recommend that the results of this audit be used by the Allegheny County, Pennsylvania District Attorney’s Office to determine whether any criminal laws of this Commonwealth have been violated and/or for whatever action it may deem appropriate and necessary.

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We express no form of assurance on the supplementary financial information, particularly considering the conditions noted in Finding No. 1.

The contents of this report were discussed with the management of the relief association and, where appropriate, their responses has/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.

September 19, 2017

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

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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. Volunteer firefighters' 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>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Baldwin Township	Allegheny	\$11,476	\$10,866	\$11,257	\$11,203
Castle Shannon Borough	Allegheny	\$45,065	\$42,726	\$44,200	\$43,985

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:

Castle Shannon Volunteer Fire Company

Baldwin Township Volunteer Fire Company

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No.1 – Accounts in the Name of The Relief Association Registered Under The  
Affiliated Fire Service Organization's Federal Tax Identification Number**

Condition: During the current audit period, we identified nine Certificates of Deposit, one brokerage account, 18 checking accounts, two money market accounts and one savings account, none of which had been previously disclosed to this department during the conduct of previous engagements, that were titled in the name of the relief association while being registered under the affiliated fire company's federal tax identification number rather than that of the relief association. Because the relief association and the fire company are two separate legal entities, the relief association records and those of the fire company should be maintained in separate accounts, and investments purchased with relief association funds should be maintained solely in the name and corresponding federal tax identification number of the relief association. The estimated values of these previously undisclosed accounts as of December 31, 2016, were as follows:

ACCOUNT TYPE	AMOUNT
Certificates of Deposit	\$ 300,440
Brokerage Account (liquidated)	-
Cash Accounts	600,339
<b>Total</b>	<b>\$ 900,779</b>

Because these previously undisclosed assets were in the name of the relief association but registered with the federal tax identification of the affiliated fire company as of December 31, 2016, we were unable to determine which assets legally belonged to which affiliated organization. In addition, we identified the following, relative to transaction activity pertaining to these previously undisclosed accounts that occurred during the current audit period through the date of this report:

- Deposits and/or transfers into cash accounts totaled \$9,429,557.
- Distributions and/or transfers out from cash accounts totaled \$8,703,385 and relative to these distributions, there were a total of 4,586 checks written during the period which included the following:
  - 395 checks were written to cash amounting to \$835,600.
  - 3,238 checks contained only one signature and additionally, 291 of these checks were executed by, made payable to, and/or endorsed by the same individual.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued):**

- 105 checks were written to individual members of the relief association totaling \$59,524 which according to relief association officials represented a “Bonus” to members; however, these payments were not documented (refer to Finding No. 2) or specifically described or enumerated in the relief association’s bylaws.
- Two checks were made out to amusement parks totaling \$2,841.
- Certificates of Deposit purchases totaled \$300,440 as of December 31, 2016.
- A brokerage account, with a beginning balance of \$35,565 as of January 1, 2013, was closed on June 24, 2015 and the funds deposited into one of the eighteen aforementioned previously unreported checking accounts.
- Tax returns provided by the relief association treasurer covering the years 2013, 2014 and 2015 (*2016 Form 990 was unavailable due to the organization’s filing of an extension*) appeared to be prepared on a commingled basis for the two affiliated organizations: relief association and fire department. These IRS Form 990 informational returns specified the relief association as the filing organization, but conversely, indicated the federal employer identification number of the fire company and reported revenues totaling \$1,964,311 and expenditures amounting to \$1,959,156 for the three-year period which included annual state aid allocations distributed to the relief association under the Foreign Fire Insurance Act (Act 205) from funding municipalities. It should also be noted that all of the Form 990 returns provided by relief association officials also identified several other funding/revenue sources for the filing organization and included grants or contributions from the following: Pennsylvania Emergency Management Firefighter Assistance Program, Foreign Fire Insurance Act (Act 205), Castle Shannon Borough and various fundraising and gaming activities. Furthermore, although the relief association treasurer is responsible for financial reporting and safeguarding of the relief association assets, the individual holding the position of treasurer of the relief association was not identified as an officer (treasurer) of the filing organization anywhere on the returns, which as previously mentioned, specifies the “Castle Shannon Firemen’s Relief Association” as the filing organization for the returns.
- Up-to-date signature/authorization cards of appropriate authorizing officials were not maintained for all accounts registered in the name of the relief association with the appropriate financial institutions.
- Another brokerage account, opened during 2013, had a withdrawal amounting to \$25,000 subsequent to the current audit period.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued):**

In all, there were 41 accounts registered in the name of the relief association while only five of these accounts were also registered with the corresponding federal tax identification number of the relief association. For seven of the 41 accounts, the relief association treasurer was the designated signatory for the account while an additional 17 accounts did not have the relief association treasurer designated as a signatory authority over the account. For the remaining 17 accounts, the signature cards were unavailable. In all, 34 of the 41 accounts were either opened and/or managed by different individuals not readily identifiable as relief association officers even though all of these accounts (Certificate of Deposits, checking, savings, money market and investments brokerage) were registered in the name of the relief association, and as such, should have been overseen and transactions properly recorded by the relief association treasurer in the minutes along with approvals by the membership of the relief association according to the relief association's bylaws.

Criteria: Prudent business practice dictates that the relief association maintain ownership of all cash and investment accounts as a means of safeguarding its assets from unauthorized use or disposition. In addition, the relief association records should not be incorporated with those of the fire company. Relief association funds must be maintained in separate relief association accounts and investments purchased with relief association funds must be maintained solely in the name of the relief association.

In addition, 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 should 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.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that all cash and investment accounts registered in the relief association's name were also properly registered with the relief association's corresponding federal tax identification number and that all signatory authorizations were current and appropriately on file with the respective financial institutions.

Effect: As a result of the cash accounts and investment accounts being registered under another entity's federal tax identification number, not only were we unable to determine which assets legally belonged to which organization, these registered relief association accounts and corresponding assets were not properly safeguarded and place the relief association's assets at greater risk of errors occurring and/or funds being misappropriated. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued):**

**Recommendation:** We recommend that relief association officials immediately secure ownership rights to all monetary assets that belong to the relief association and/or re-title the accounts not belonging to the relief association into the name of the affiliated fire company and take any actions necessary to comply with Act 118 Surety (Fidelity) bond coverage requirements. This requirement can be accomplished by ensuring that all relief association accounts are immediately registered under the relief association's federal tax identification number. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS. In addition, we recommend that the relief association immediately review and update all corresponding signatory authorization documentation maintained on file with the varying financial institutions to ensure that only appropriate authorizing relief association officials responsible for the administrative oversight of the financial accounts of the relief association are properly maintained on file with these financial institutions, accordingly. Finally, since the relief association and the affiliated fire service organization are separate, legal entities, we recommend that future tax returns filed on behalf of these organizations include only the information of the designated entity filing the annual return and discontinue the practice of reporting activity on the return on a commingled basis.

**Management's Response:** Relief association officials indicated that all accounts under the control of the fire department would be re-titled in the name and corresponding federal employer identification number of the fire department.

**Auditor's Conclusion:** Based on the management response, we recommend that the detailed listing of accounts prepared from the books and records of the relief association by this department be analyzed with fire company officials and all accounts belonging to the relief association be immediately re-registered with the corresponding federal employer identification number of the relief association and/or be verified as closed. In the future, any and all accounts appearing in the name of the relief association must be disclosed at the time of audit and also be properly titled in the name and corresponding federal tax identification number of the relief association to ensure appropriate ownership by the relief association. All such accounts and assets will remain subject to audit to determine that 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. Finally, due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

CASTLE SHANNON VOLUNTEER FIREMEN’S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Undocumented Expenditures**

Condition: The relief association was unable to provide adequate supporting documentation or evidence of membership approval or proper authorization by relief association officials for the following expenditures made during the current audit period:

<u>Year</u>	<u>Check No.*</u>	<u>Payee Description</u>	<u>Amount</u>
2013	various	Payable to cash/vendors or individual members of the relief association	\$ 80,682
2014	various	Payable to cash/vendors or individual members of the relief association	84,978
2015	various	Payable to cash/vendors or individual members of the relief association	50,880
2016	various	Payable to cash/vendors or individual members of the relief association	33,333
		Total	<u>\$ 249,873</u>

*\* A detailed listing of individual checks including individual amounts was prepared and made available to relief association officials and is summarized above for reporting purposes.*

In all, from the chart above, based on review of the bank statements and cancelled checks provided by the financial institution, we identified 106 checks out of 395 checks reported in Finding No. 1 above that were written to cash totaling \$129,100.

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 and proper authorization through minutes, bylaws, or invoices, this department was unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation and authorization be maintained to evidence the propriety of all financial transactions.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued):**

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that adequate supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices and approvals documented in 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) and approved by the relief association's membership, which is also contrary to 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. The relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that relief association officials provide this department with adequate supporting documentation, such as invoices, detailed meeting minutes authorizing the expenditures or the relief association seek reimbursement in the amount of \$249,873 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 officials did not agree with the finding and recommendation as stated and indicated that the account and account activity in question (ending in 4614) was never intended to be a relief association account and does not belong to the relief association and will be re-titled in the name of the fire company. Also, officials indicated that they did not have any receipts for the 106 checks made payable to cash and could not repay the \$249,873 if required to do so.

Auditors Conclusion: Based on the management response, although officials indicated that the account and related account activity in question was never intended to be a relief association account, our records indicate that the relief association treasurer, not the fire company treasurer, had authorizing authority over this account according to records provided by bank officials and as such, the relief association treasurer's signature appears on a majority of the checks distributed from this account as well as other transactions occurring within this account. During the audit, relief association officials were unable to provide documentation showing the affiliated fire company's treasurer or other authorized fire company official had authorizing control over the expenditures identified in this finding. Therefore, the finding and recommendation remain as stated. In addition, due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Inadequate Internal Controls**

**Condition:** The relief association failed to establish adequate internal controls. The following conditions that are indicative of internal control weaknesses were noted during the audit period:

- Original invoices were not made available to support all transactions in previously undisclosed accounts including disbursements made payable to cash (see Finding No. 2).
- Bank reconciliations were not performed on previously undisclosed accounts.
- Financial related activities were not presented, discussed, and approved at relief association meetings.
- Relief association treasurer was not designated signatory authority over all accounts bearing the name of the relief association (see Finding No. 4).
- Detailed minutes of meetings were not maintained.
- Periodic physical inventories of equipment owned by the relief association were not performed.
- A second signature was not evident on many checks executed during the audit period (see Finding Nos. 1, 2 and 4)

**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, Sections 1 and 2 of Article V, Section 1 of Article VI and Section 1 of Article VII of the relief association's bylaws states, in part:

- All expenditures (including investments) must be approved by majority vote and recorded in the minutes.
- All expenditures must be made through a relief association and recorded, in detail, in the association journal and ledger.
- Signatures of at least two officers, one of whom shall be the treasurer, shall be required for the issuance of relief association checks.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Furthermore, prudent business practice dictates that:

- Original invoices shall be required prior to payment of purchases.
- Purchases with cash terms should be prohibited.
- Checks should be mailed directly to vendors.
- Monthly bank reconciliations should be performed.
- 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: Relief association officials failed to establish adequate internal controls to ensure the propriety of expenditures and proper documentation of relief association transactions. Relief association officials indicated that they were aware of the relief association's ineffective internal controls, but failed to improve the internal controls.

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.

Recommendation: We recommend that the relief association officials adopt internal control procedures which will require the following:

- Payment of purchases only from original invoices.
- Prohibition of checks made payable to cash.
- Prohibition of checks made payable to and executed by the same individual.
- Requirement for two signatures on all checks, one being the authorized disbursing officer/treasurer.
- Control of all relief association-owned accounts by the relief association treasurer.
- Mailing of checks directly to vendors.
- Performance of monthly bank reconciliations
- Presentation, discussion, and approval of financial activities at relief association meetings.
- Maintenance of detailed meeting minutes.
- Periodic physical inspections of equipment owned.
- Maintenance of documentation of all expenditures.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

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

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 including the maintaining of monthly minutes of meetings documenting meeting quorum and membership approvals.

Auditor's Conclusion: Based on the management response, it appears the relief association intends to comply with the recommendation which will be subject to verification through our next audit.

**Finding No. 4 – Inadequate Signatory Authority For The Disbursement Of Funds**

Condition: During the current audit engagement, we identified 3,238 checks out of 4,586 checks (70.6 percent), drawn on accounts maintained in the corresponding name of the relief association that only contained one signature. Even though two signatures, one being the disbursing officer, are required by Act 118 and the relief association bylaws, checks were issued without the signature of a relief association officer which negates the relief association's internal control over the disbursement process.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

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

Signatures of at least two officers, one of whom shall be the treasurer, shall be required for the issuance of relief association checks....

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

Cause: Relief association officials neglected to establish adequate internal control procedures that require the signatures of at least two officers on all negotiable instruments (also refer to Finding No. 3).

Effect: As a result of the relief association issuing checks with only one signature, assets were placed at greater risk and may have been incorrectly issued according to Act 118 and expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

Recommendation: We recommend that the relief association officials immediately establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the disbursing officer, are included on all relief association negotiable instruments as defined by Act 118. 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. Auditee stated two signatures are required.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

**Finding No. 5 – Failure To Maintain A Complete And Accurate Membership Roster**

Condition: The relief association officials did not maintain a complete and accurate roster of all relief association members. Although a current roster was provided, it did not contain the eight vested members, one of whom was paid a death benefit in the amount of \$3,225.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member
- Members' mailing addresses
- Dates of birth for members
- Dates of memberships
- Membership classifications

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 5 – (Continued)**

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials indicated that they were aware that they should maintain a comprehensive roster of relief association members, but failed to include the vested members.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend that the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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. Auditee stated that the vested rights schedule will be added to membership roster.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

**Finding No. 6 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number**

Condition: As disclosed in a verbal observation during the two previous audits, the relief association again failed to maintain a current Pennsylvania sales tax exemption number. Although the relief association did have its own sales tax exemption number, it expired previously on March 31, 2009, and is no longer valid.

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

A volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

Cause: Even though notified of this condition during our prior two audits, relief association officials again failed to take measures necessary to maintain a (current/valid) Pennsylvania sales tax exemption number.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 6 – (Continued)**

Effect: As a result of the relief association's continued failure to maintain a sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on their purchases, which ultimately reduces the funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We again recommend that the relief association officials immediately reapply for a new state sales tax exemption number from the Department of Revenue and furnish this exemption number to all vendors from whom the relief association purchases equipment. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

**Finding No. 7 – Inadequate Minutes Of Meetings And Disclosure Of Related Party Transactions**

Condition: As previously disclosed in Finding No. 3, the relief association failed to maintain detailed minutes of meetings held during and subsequent to the current audit period as required by Act 118. Specifically, the relief association did not provide minutes evidencing that meetings were actually held and that relief association business was presented before the membership for approval, including the financial-related transactions that occurred during the audit period. These transactions included business transacted between the relief association and a vendor that employs a relief association officer. During the current audit period, the relief association expended \$167,072 for insurance services with the vendor employing the relief association officer. Without detailed minutes of meetings, we were unable to determine if these transactions were properly disclosed to the membership. Further, we were unable to determine whether the officer involved with this business that is party to the related party transaction properly abstained from voting on such transactions.

A related party transaction occurs when the relief association does business with a vendor that employs or is owned by a relief association officer or a member of an officer's immediate family. Such a transaction may result in a less than arm's length transaction and provide improper financial benefit to such officer or member of such officer's immediate family through a commission or a profit from a sale.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 7 – (Continued)**

Criteria: As disclosed earlier in Finding No. 3, 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, 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.

Cause: Relief association officials were aware that maintaining detailed minutes of meetings was required by Act 118 and that ethics laws require that related party transactions should be disclosed in the minutes to the membership, but failed to comply.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist and the expenditure may not be allowable per Act 118. In addition, the failure to properly disclose related party transactions may create potential conflicts of interest which could result in the relief association being involved in less than arm's length financial transactions.

Recommendation: We recommend that the relief association officials maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association, and disclosure of the related party transactions. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS. We also recommend that relief association officials take the actions necessary to eliminate the appearance of conflicts of interests. Actions should include, but are 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 officials 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.

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 by maintaining minutes of meetings held.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Findings No. 1 and No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2016

Cash	\$ 52,274
Fair Value of Investments	<u>175,403</u>
Total Cash and Investments*	<u><u>\$ 227,677</u></u>

\* Total cash and investment balances reported above reflect only those accounts maintained appropriately in the specific name and corresponding federal employer identification number of the relief association or similar accounts affected by a direct transfer into or out of an account identified specifically in the name of the relief and corresponding federal employer identification number of the relief association (refer to Finding No. 1 and 2 for additional information on previously undisclosed accounts in the name of the relief association).

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 284,153
Death benefits	77,223
Relief benefits	2,070
Total Benefit Services	<u>\$ 363,446</u>
Administrative Services:	
Other administrative expenses	\$ 25
Bond premiums	1,121
Total Administrative Services	<u>\$ 1,146</u>
Total Investments Purchased	<u>\$ 50,000</u>
Other Expenditures:	
Undocumented expenditures*	<u>\$ 249,873</u>
Total Expenditures	<u><u>\$ 664,465</u></u>

\* Refer to Finding No. 2 regarding the undocumented expenditures summarized in the schedule above.

CASTLE SHANNON VOLUNTEER FIREMEN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Castle Shannon Volunteer Firemen's Relief Association Governing Body:

**Mr. David Kosmer**  
President

**Mr. Richard Tomnay**  
Secretary

**Mr. John H. Montgomery**  
Treasurer

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

**Mr. Stephen Zahorchak**  
Secretary  
Baldwin Township

**Mr. Thomas Hartswick**  
Secretary  
Castle Shannon Borough

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).