

# COMPLIANCE AUDIT

---

## Lower Chichester Firemens Relief Association of Linwood, Delaware County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

---

January 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Mark Lamplugh, President  
Lower Chichester Firemens Relief  
Association of Linwood,  
Delaware County, Pennsylvania

We have conducted a compliance audit of the Lower Chichester Firemens Relief Association of Linwood, Delaware County, Pennsylvania (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, 2016 to December 31, 2017.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the findings 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 independent confirmations of the cash balance and the investment balance directly from the financial institutions. Therefore, while the relief association provided bank and investment statements that indicated that, as of December 31, 2017, the relief association had a cash balance of \$19,059 and an investment balance with a fair value of \$5,797, we were not able to verify those cash and investment balances.

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, 2016 to December 31, 2017:

- The relief association took appropriate corrective action to address two of the five findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the three remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- 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 fund, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Secure Ownership Of Assets

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

All three audit findings contained in this report cite conditions that existed in the operation of the relief association during the prior audit period and were not corrected 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.

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.



EUGENE A. DEPASQUALE  
Auditor General

December 28, 2018

## CONTENTS

	<u>Page</u>
Background .....	1
Status of Prior Findings .....	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Secure Ownership Of Assets .....	4
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws.....	5
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster .....	6
Supplementary Financial Information .....	8
Report Distribution List .....	10

## 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2016</u>	<u>2017</u>
Lower Chichester Township	Delaware	\$16,646	\$16,039

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

Lower Chichester Fire Company No. 1

LOWER CHICHESTER FIREMENS RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure To Secure Ownership Interest In Jointly Purchased Equipment

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

- Untimely Deposit Of State Aid

By timely depositing all income received.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with three of the five prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure To Secure Ownership Of Assets

- Inadequate Relief Association Bylaws

- Failure To Maintain A Complete And Accurate Equipment Roster

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

LOWER CHICHESTER FIREMENS RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance with Prior Audit Recommendation – Failure To Secure Ownership Of Assets**

Condition: As disclosed in the prior audit report, the relief association held cash and investments inappropriately registered under an unknown employer tax identification number. A similar condition occurred during the current audit period. As of December 31, 2017, the relief association held equity investments totaling \$5,797, a brokerage depository account of \$2,166 and an interest bearing checking account with a balance of \$16,893 which again were all inappropriately registered under an unknown employer tax identification number. These assets represent 100 percent of the relief association's total monetary assets.

Criteria: As previously disclosed, prudent business practice dictates that the relief association maintain ownership of all investments and cash assets as a means of safeguarding its assets from unauthorized use of disposition.

Cause: Even though notified of this condition during our prior audit, relief association officials again failed to establish adequate internal control procedures to ensure that all cash assets and all investments purchases were registered with the relief association's federal tax identification number.

Effect: As a result of the investments being inappropriately registered under another entity's federal tax identification number, these relief association assets were not properly safeguarded and federal tax withholding has been placed on the interest baring account of the relief association.

Recommendation: We again recommend that the relief association secure ownership rights to all monetary assets. This requirement can be accomplished by ensuring that all banking accounts and investments are registered under the relief association's name and federal tax identification number. 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.



LOWER CHICHESTER FIREMENS RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws**

Condition: The existing bylaws of the relief association do not contain all of the provisions required by Section 7415(c) of Act 118 and considered to be beneficial to the operation of relief associations. Specifically, the bylaws do not address the procedure to be followed in nominating and electing officers, trustees, directors, and members of the executive committee.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(c) of Act 118 states that the relief association’s bylaws shall:

- (5) State the procedure to be followed in nominating and in electing officers, trustees, directors, and members of the executive committee, according to the provisions which have been made for establishment of those positions.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to amend the relief association bylaws to meet the bylaw provisions required by Act 118.

Effect: As a result of the mandatory provision not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We again recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of the relief association. 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: We are concerned by the relief association’s failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

LOWER CHICHESTER FIREMENS RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Maintain  
A Complete And Accurate Equipment Roster**

Condition: The relief association did not maintain a complete and accurate roster of equipment owned by the relief association. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all equipment owned by the relief association.

A similar condition was noted in our prior audit report.

Criteria: Prudent business practice dictates that the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include all of the following:

- Types of equipment purchased
- Dates of purchase
- Unit costs
- Names of suppliers
- Serial numbers, if applicable
- Current locations of items
- Final dispositions of sold or damaged equipment
- Evidence of the performance and results of an annual physical inventory

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

Effect: The continued failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

LOWER CHICHESTER FIREMENS RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Recommendation: We again recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

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

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

LOWER CHICHESTER FIREMENS RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2017

Cash	\$ 19,059
Fair Value of Investments	<u>5,797</u>
Total Cash and Investments	<u><u>\$ 24,856</u></u>

LOWER CHICHESTER FIREMENS RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
SUMMARY OF EXPENDITURES  
FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:

Insurance premiums	\$ 13,428
Tokens of sympathy and goodwill	219
Total Benefit Services	\$ 13,647

Fire Services:

Equipment purchased	\$ 2,513
Equipment maintenance	7,461
Training expenses	2,524
Fire prevention materials	732
Total Fire Services	\$ 13,230

Administrative Services:

Other administrative expenses	\$ 300
Bond premiums	500
Total Administrative Services	\$ 800

Other Expenditures:

Unauthorized expenditures *	\$ 1,019
-----------------------------	----------

Total Expenditures	\$ 28,696
--------------------	-----------

\* During 2017, the relief association made two erroneous disbursements for the affiliated fire company totaling \$1,019 which were not authorized by Act 118; however, the relief association officials realized their errors and, before the start of our audit, the affiliated fire company reimbursed \$1,019 to the relief association on September 26, 2018.

LOWER CHICHESTER FIREMENS RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Lower Chichester Firemens Relief Association of Linwood, Delaware County, Pennsylvania  
Governing Body:

**Mr. Mark Lamplugh**  
President

**Mr. Lorenzo Scalora**  
Treasurer

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

**Mr. Joseph Possenti, Jr.**  
Secretary  
Lower Chichester Township

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).