

COMPLIANCE AUDIT

Morton-Rutledge Volunteer Fireman's Relief Association

Delaware County, Pennsylvania

For the Period

January 1, 2018, to December 31, 2021

December 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Joseph Laspina, President
Morton-Rutledge Volunteer Fireman's
Relief Association
Delaware County

We have conducted a compliance audit of the Morton-Rutledge Volunteer Fireman's Relief Association (relief association) for the period January 1, 2018, to December 31, 2021, pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

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 attempting to address the objectives identified above and was not, nor was it required to be, 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 attempt to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objective. Because of the matter described in the next paragraph, however, we were not able to obtain sufficient, appropriate audit evidence to provide a basis for conclusions.

It is important to note that the relief association's officers did not provide the following documents that we requested in order to perform our audit:

- Receipts and disbursement journals and ledgers for the entire audit period
- Checkbooks
- Equipment rosters
- Investment statements
- Invoices for some expenditures
- Surety (Fidelity) bond policies

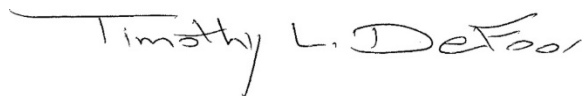
Based on our audit procedures, we conclude that, for the period January 1, 2018, to December 31, 2021:

- 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.
- Because of the significance of the matters described in Finding Nos. 2, 3 and 4 below and discussed later in this report and the effects, if any, of the matter described in the previous paragraph, 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. Therefore, the relief association may be subject to the withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster
- Finding No. 2 – Undocumented Expenditures
- Finding No. 3 – Undocumented And Unsecured Loan Resulting In Unauthorized Expenditure
- Finding No. 4 – Unauthorized Expenditures
- Finding No. 5 – Inadequate Financial Record-Keeping System
- Finding No. 6 – Inadequate Investment Records
- Finding No. 7 – Inadequate Minutes Of Meetings
- Finding No. 8 – Failure To Maintain A Complete And Accurate Membership Roster
- Finding No. 9 – Inadequate Internal Controls
- Finding No. 10 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

We are providing a copy of the audit report to the Delaware County, Pennsylvania District Attorney's Office for their information to review and to determine what further action, if any, may be appropriate.

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.



Timothy L. DeFoor
Auditor General
October 28, 2022

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code¹, and the Volunteer Firefighters' Relief Association Act² ("VFRA Act"), 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 Law³ (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.

The VFRA Act 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, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, 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.

¹ 72 P.S. § 403 (as last amended by Act 44 of 2017).

² 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

³ 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Morton Borough	Delaware	\$13,526	\$14,586	\$14,668*	\$13,194*
Rutledge Borough	Delaware	\$ 4,173	\$ 4,511	\$ 4,533	\$ 4,083

* Morton Borough prepared and returned a Certification Form AG 385 for 2020 and 2021. Also, on October 27, 2021, Morton Borough submitted its 2020 and 2021 Receipt And Distribution Of Foreign Fire Insurance Premium Tax Forms 706-B to this department as required by the instructions accompanying Form 706-B and the instructions accompanying the 2020 and 2021 state aid allocations received by the borough disclosing this information. However, on January 31, 2022, the 2020 and 2021 706-B forms were sent back to the borough for corrections. As of the completion of our audit fieldwork, the borough had not yet returned corrected forms as required.

Morton Borough is still required to resubmit the corrected 2020 and 2021 Receipt And Distribution Of Foreign Fire Insurance Premium Tax Forms 706-B online within the Department of Community & Economic Development’s Municipal Statistics website (MunStats) immediately.

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:

Morton-Rutledge Fire Company

Based on records available for examination during our audit, the relief association’s total cash and investments as of December 31, 2021, appears to be \$95,826 plus an unknown book value of other investments, if still applicable, as illustrated below:

Cash	\$ 88,526
Fair Value of Investments (See Finding No. 6)	Unknown
Book Value of Other Investments (See Finding No. 3)	<u>7,300</u>
Total Cash and Investments	<u><u>\$ 95,826</u></u>

BACKGROUND – (Continued)

Based on bank records provided by the relief association, the relief association’s total expenditures for the period January 1, 2018, to December 31, 2021, were \$218,635. However, due to limited information provided during the audit and our inability to conduct audit procedures, we could not evaluate the accuracy of the reported expenditures or conclude on the relief association’s compliance 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.⁴ **The scope of the Department’s audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Other Expenditures:	
Various Expenditures Authorized by the VFRA Act	\$ 189,648
Undocumented expenditures (See Finding No. 2)	14,114
Unauthorized expenditures (See Finding Nos. 3 and 4)	14,873
Total Other Expenditures	<u>\$ 218,635</u>
Total Expenditures	<u>\$ 218,635</u>

⁴ Due to limited documentation obtained from the relief association during our audit, we were unable to evaluate the accuracy of expenditure transactions during the conduct of our audit.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – 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. The equipment roster provided to our auditors only included equipment purchased in calendar year 2016. 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: There has been changes in relief association officials and the relief association does not know who is assigned to be in charge for maintaining the equipment roster. Relief officials indicated they plan to assign a person to get the roster up to date and accurate.

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.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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. In addition, the relief association should ensure it assigns someone to maintain the equipment roster and monitor to ensure all required duties are being performed. 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.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Expenditures

Condition: The relief association was unable to provide any adequate supporting documentation upon our initial requests for documentation evidencing the propriety for all expenditure transactions tested during our audit (all transactions made during the audit period), which totaled \$218,635 in expenditures. Subsequent to the audit exit conference and prior to the time of release of the audit report, relief association officials were able to provide our auditors with supporting documentation evidencing the propriety of \$189,648 of the expenditure transactions occurring within the audit period.⁵ As of the date of the release of the audit report, the relief association still did not provide adequate supporting documentation for the following expenditures made during the current audit period:

Date	Check No.	Payee Description	Amount
02/13/18	410	Equipment expense	\$ 199
04/05/18	414	Credit card payment	1,561
08/29/18	438	Member reimbursement	26
05/21/19	452	Training vendor	300
06/11/19	Cashier's Check	Equipment vendor	6,000
06/11/19	454	Equipment vendor	500
09/04/19	461	Token of sympathy	173
05/25/20	476	Neighboring Township	211
03/09/21	466	Equipment expense	2,572
04/14/21	488	Maintenance expense	2,572
Total			<u>\$ 14,114</u>

Criteria: Section 7418(a) of the VFRA Act 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.

Prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

⁵ The relief association provided supporting documentation for additional expenditures totaling \$14,873 that are not authorized by the VFRA Act. Refer to Finding Nos. 3 and 4.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association management indicated that as offices and positions changed, they were unable to locate the records and invoices requested but that most if not all invoices available were provided.

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 the VFRA Act. 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. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

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 \$14,114 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 did not provide a response to the audit finding.

Auditor's Conclusion: We continue to recommend that the relief association provide our 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 \$14,114 for the remaining undocumented expenditures. Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation for the remaining \$14,114 will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

Finding No. 3 – Undocumented And Unsecured Loan Resulting In Unauthorized Expenditure

Condition: On April 13, 2018, the relief association granted a personal loan to a member in the amount of \$10,000, which is not authorized by the VFRA Act. In addition, the loan was undocumented and unsecured. During the audit period, the relief association collected \$2,700 in payments. As of December 31, 2021, the remaining balance due on this loan was \$7,300.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Section 7416(f) of the VFRA Act states:

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

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service, including necessary training.

Section 7416(c)(3) of the VFRA Act states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any obligation of an incorporated fire company, provided that the obligation is:

- (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

In addition, prudent business practice requires such terms of the obligation be placed into a written loan agreement. Further, a personal loan to a relief association member does not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized by the VFRA Act.

Cause: Relief association officials indicated that they were unaware that a loan to a member was not authorized by the VFRA Act. In addition, officials were unaware that loans must be documented in a formal written loan agreement along with being secured by assets having a capital value equal to at least 150% of the amount of the loan.

Effect: It is especially troubling that the relief association converted public monies to a private, unsecured loan for one of its members. The department finds that the relief association's lack of knowledge and the failure to perform due diligence in researching whether this was a permissible use of funds is an unacceptable act by a fiduciary of public funds. As a result of this improper, undocumented, and unsecured loan expenditure, relief association funds were put at risk and not available for investment purposes or to pay for expenditures authorized by the VFRA Act. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend the relief association officials become familiar with Section 7416 (f) and Section 7416 (c) of the VFRA Act to aid them in determining the propriety of future expenditures and that the relief association discontinues issuing personal loans to members and that the loan be immediately liquidated. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management did not agree with the finding as presented at the audit exit conference and stated they unfortunately cannot agree to the department's findings.

Auditor's Conclusion: The relief association did not comply with Section 7416(c)(3) of the VFRA Act and with prudent business practices for granting or entering into any loans. For these reasons, we disagree with the relief association management's position on the audit finding. It is especially troubling that the relief association refuses to acknowledge the severity of its failure to manage public monies which, apparently, were used for the sole personal benefit of at least one member outside the scope of the VFRA Act. The relief association holds a fiduciary responsibility to responsibly handle its monies, as they originate from public funds. The relief association's failure to responsibly manage its monies, coupled by the complete lack of obtaining security for the personal loan and its failure to commit the personal loan to a formal agreement, is unacceptable. 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.

Finding No 4 – Unauthorized Expenditures

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

Date	Check No.	Description	Amount
10/16/18	442	Donation	\$ 100
05/25/20	478	Fire Company insurance premium	2,620
05/25/20	479	Maintenance of Fire Company owned vehicles	2,095
07/30/20	482	PA Sales Tax	42
01/10/21	484	PA Sales Tax	16
Total			<u><u>\$ 4,873</u></u>

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Criteria: Section 7416(f) of the VFRA Act 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.

Donations, Fire Company insurance premiums and costs associated with maintenance of Fire Company owned vehicles and Pennsylvania Sales Tax do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

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

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by the VFRA Act. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association be reimbursed \$4,873 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of the VFRA Act 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 indicated they will take action to comply with the recommendation.

Auditor's Conclusion: 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.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Inadequate Financial Record-Keeping System

Condition: The 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:

- A journal was not maintained to record the receipts and disbursements of the relief association for the entire audit period.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Documentation to support all expenditures was not available for examination at the time of the audit.

Criteria: Section 7415(a) of the VFRA Act 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: Relief association officials said they are having issues locating records and that there had been high turnover of relief officers.

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

Recommendation: We recommend that the 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: Relief association management did not agree with the finding as presented at the audit exit conference and stated they unfortunately cannot agree with the audit finding.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Auditor's Conclusion: The relief association did not comply with Section 7415(a) of the VFRA Act and implement prudent business practices for establishing an adequate system of accounting and record-keeping. It is undisputed that the relief association did not maintain, or at least were unable to produce, journals, ledgers, or documentation to support its expenditures. While the relief association may have experienced turnover, this is exactly the reason to maintain such records because when there is turnover of officers, new officers need financial records to adequately perform their duties. It is again very troubling that the relief association refuses to acknowledge the impact of their lack of a record-keeping system and, as a result, they potentially place future expenditures into question without formal documentation. Considering the relief association has attributed many of its failures to high turnover in its officer positions, it is confusing and troubling why they do not acknowledge the lack of, and need for, a record-keeping system. For these reasons, we disagree with the relief association management's position on the audit finding. Compliance will be subject to verification through our next audit.

Finding No. 6 – Inadequate Investment Records

Condition: Relief association officials did not maintain adequate records of investments purchased and sold, as well as the source of investment income. Specifically, investment statements for relief association investments were not maintained, nor were they provided for examination during the conduct of this audit. The reported fair value of investments as of **December 31, 2017**, was \$171,412. However, records of the reported fair value of relief association investments beyond this period were not maintained or provided to our auditors.

Criteria: Section 7415(a) of the VFRA Act 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.

Additionally, sound accounting procedures for investment purchases and sales should include the recording of the following:

- Date of purchase or sale of the security
- Identification number of the security
- Rate of interest
- Date of receipt of interest income
- Date of maturity

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Cause: Relief association officials failed to establish adequate accounting procedures to record the transactions of each investment. Relief officials did not provide a reason for why this occurred.

Effect: The failure to maintain an adequate record-keeping system for investment transactions prevents officials from effectively monitoring the relief association's financial position. In addition, the risk of assets being lost, insufficiently monitored for decision making purposes, and/or misappropriated increases when not adequate records are not maintained.

Recommendation: We recommend that the relief association officials take the necessary steps to record all investments purchased and sold, and identify the source and amount of investment income, so that all investment transactions are sufficiently documented and can be acted upon when deemed prudent by the relief association. In addition, relief association officials should provide our auditors with all relief association investment records when requested. 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

Condition: The relief association failed to maintain detailed minutes of meetings as required by the VFRA Act and the relief association's bylaws. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period. In addition, meetings were only held in one month during calendar year 2018, three months during calendar year 2019, and three months during calendar year 2020. No meetings were held during calendar year 2021.

Criteria: Section 7415(a) of the VFRA Act 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.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 7 – (Continued)

The relief association's bylaws at Article II, Section 1 states, in part:

Regular meetings of this association shall be held, as needed, following the regular meeting of the Morton-Rutledge Fire Company.

In addition, the relief association's bylaws at Article II, Section 3 states, in part:

The secretary shall keep a true record of the proceeding of every meeting in the minutes. The minutes shall note authorization by the membership of all association financial transactions and all other pertinent business discussed at meetings.

Furthermore, the relief association's bylaws at Article V, Section 1 states, in part:

All expenditures must be approved by a majority vote at an association meeting and duly recorded in the minutes.

Cause: Relief association management indicated that the recording of some of the meetings have not been transcribed timely. Relief officials further indicated that minutes will be transcribed after meetings are held to ensure proper records are being kept. Relief association officials did not provide any additional information for why all required regular meetings were not held during the audit period.

Effect: Without holding regular meetings and maintaining detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend that the relief association officials hold all required meetings and maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. We also recommend that relief association officials consider holding monthly meetings to ensure all financial related business is approved. 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.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 8 – Failure To Maintain A Complete And Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members.

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 births
- Dates of memberships
- Membership classifications

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 management indicated that due to changes of officers it is unknown where the roster is located. Relief officials indicated the document will be located or created and provided to our auditors.

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 locate/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.

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

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 9 – Inadequate Internal Controls

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

- A roster of all relief association owned equipment was not maintained.
- Periodic physical inventories of equipment owned were not performed.
- Original invoices were not maintained.
- A loan was given which was not documented and was unsecured.
- Expenditures were not made in accordance with the VFRA Act.
- Journals and ledgers were not maintained.
- Bank reconciliations were not performed.
- Investment statements were not maintained or provided to our auditors.
- Financial related transactions were not presented, discussed, and approved at relief association meetings.
- A roster of members was not maintained.
- Pennsylvania Sales Tax was paid in the amount of \$58.

Criteria: Section 7415(a) of the VFRA Act 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.

Furthermore, prudent business practice dictates that:

- Detailed equipment roster must be maintained.
- Periodic physical inventories of equipment owned be completed.
- Original invoices shall be maintained.
- All loans be properly documented and secured.
- All expenditures be made in accordance with the VFRA Act.
- Journal and ledgers must be maintained.
- Bank reconciliations must be performed.
- Investment statements must be maintained.
- Detailed meeting minutes must be maintained to accurately document relief association business.
- Detailed membership roster must be maintained.
- Pennsylvania Sales Tax Number shall be furnished to all vendors.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 9 – (Continued)

Cause: Relief association management stated that the relief association did not know who was in charge. Officers have changed multiple times; it is unknown where association records are being stored. Relief association officials indicated that they were unaware that a loan to a member was not authorized by the VFRA Act. Recordings of meetings have not been transcribed timely.

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 a comprehensive internal control system that includes procedures which will require the following:

- Maintenance of detailed accumulative equipment roster of all relief owned equipment
- Periodic physical inspections of equipment owned
- Maintenance of original invoices
- Proper execution of loan agreements and inclusion of adequate collateral for all loans
- Approval to ensure expenditures are made in compliance with the VFRA Act
- Maintenance of detailed journals and ledgers
- Performance of monthly bank reconciliations
- Maintenance of investment statements
- Presentation, discussion, and approval of financial activities at relief association meetings
- Maintain detailed membership roster
- Provision of a relief association Pennsylvania Sales Tax Exemption Number to vendors

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.

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

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 10 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

Condition: The relief association failed to maintain a Pennsylvania sales tax exemption number. Although the relief association did have its own sales tax exemption number, the relief association has not provided an updated documentation since December 2, 2014, and as such the exemption number may longer be valid. Further, our audit determined that the relief association paid a total of \$58 in Pennsylvania sales tax during the audit period (see Finding No. 4).

Criteria: Section 7415(e) of the VFRA Act 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: Relief association management indicated that it is unknown where documentation is located due to changes of officers. Relief officials were unable to provide any record of an updated Pennsylvania sales tax exemption number.

Effect: As a result of the relief association's 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 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.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 2, 3 and 4 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 may 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 316E Finance Building, Harrisburg, PA 17120.

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Jack Stollsteimer
Delaware County District Attorney

Morton-Rutledge Volunteer Fireman's Relief Association Governing Body:

Mr. Joseph Laspina
President

Mr. Glen Pitner
Vice President

Ms. Barbara LeRory
Secretary

Ms. Kristy Holstein
Financial Secretary

Ms. Lauren Weed
Treasurer

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

Ms. Martha Preston
Secretary
Morton Borough

Ms. Jen Mickle
Secretary
Rutledge Borough

MORTON-RUTLEDGE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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