

COMPLIANCE AUDIT

Paoli Volunteer Firemen's Relief Association of Tredyffrin Township, Chester County, Pennsylvania

For the Period
January 1, 2018 to December 31, 2020

August 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Mr. Thomas Robinson, III, President
Paoli Volunteer Firemen's Relief Association
of Tredyffrin Township, Chester County,
Pennsylvania

We have conducted a compliance audit of the Paoli Volunteer Firemen's Relief Association of Tredyffrin Township, Chester 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, 2018 to December 31, 2020.

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, 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 perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain an independent confirmation of a portion of the investment balance directly from the financial institution. Therefore, while the relief association provided investment statements that indicated that, as of December 31, 2020, the relief association had an investment balance with a fair value of \$1,909,222, we were not able to verify a portion of this investment balance.

Based on our audit procedures, we conclude that for the period January 1, 2018 to December 31, 2020:

- The relief association did not take appropriate corrective action to address the findings contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report.
- Except for the effects, if any, of the matter described in the preceding paragraph, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

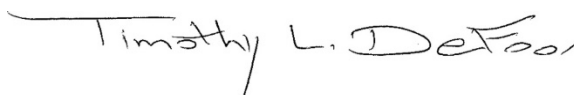
Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

We have also issued the observation below as detailed in the Observation section of this report.

Observation – FDIC Coverage Limits Exceeded

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.



Timothy L. DeFoor
Auditor General

August 10, 2021

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (commonly referred to as Act 205), are properly expended.

The relief association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of relief associations to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations that is or are recognized as providing the service to the municipality.

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Easttown Township	Chester	\$ 39,725	\$ 43,160	\$ 43,145
Tredyffrin Township	Chester	\$163,494	\$178,615	\$178,772
Willistown Township	Chester	\$ 38,388	\$ 41,556	\$ 41,467

Based on the relief association's records, its total cash and investments as of December 31, 2020 were \$3,717,628, as illustrated below:

Cash	\$ 1,006,048
Fair Value of Investments	1,909,222
Book Value of Other Investments	<u>802,358</u>
Total Cash and Investments	<u><u>\$ 3,717,628</u></u>

BACKGROUND – (Continued)

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$3,379,922, as noted below. The accuracy of these expenditures was evaluated as part of the Department's audit to 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.¹ **The scope of the Department's audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Benefit Services:

Insurance premiums	\$ 341,870
Relief benefits	1,210
Tokens of sympathy and goodwill	254
Total Benefit Services	<u>\$ 343,334</u>

Fire Services:

Equipment purchased	\$ 1,695,431
Equipment maintenance	81,084
Training expenses	21,464
Fire prevention materials	1,534
Total Fire Services	<u>\$ 1,799,513</u>

Administrative Services:

Officer compensation	\$ 10,200
Other administrative expenses*	29,243
Bond premiums	1,296
Total Administrative Services	<u>\$ 40,739</u>

Total Investments Purchased	<u>\$ 1,196,258</u>
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Other Expenditures:

Undocumented expenditure	<u>\$ 78</u>
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Total Expenditures	<u><u>\$ 3,379,922</u></u>
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* A portion of the Other administrative expenses includes \$18,010 in accounting fees paid during the audit period.

¹ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

BACKGROUND – (Continued)

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:

Paoli Fire Company

PAOLI VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE TREDYFFRIN
TOWNSHIP, CHESTER COUNTY, PENNSYLVANIA
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Unauthorized Expenditures
- Undocumented Expenditures

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.

PAOLI VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE TREDYFFRIN
TOWNSHIP, CHESTER COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures

Condition: During the two prior audit periods, the relief association expended \$588 for cell phone service assigned to ambulances and expo travel expenses that are not authorized by Act 118, and relief association officials did not take corrective action to address the expenditures prior to the current audit period ending December 31, 2020.

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

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

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

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

Costs associated with cell phones assigned to ambulances and expo travel expenses do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: The relief association officials did not provide a reason for why this occurred despite the relief association being notified of this condition during the two prior audit periods.

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

Recommendation: We again recommend that the relief association be reimbursed \$588 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of Act 118 to aid them in determining the propriety of future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

PAOLI VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE TREDYFFRIN
TOWNSHIP, CHESTER COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the affiliated fire company reimbursed the relief association \$588 for the unauthorized expenditure on May 24, 2021.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$588 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

Condition: During the prior audit period, the relief association was unable to provide adequate supporting documentation for credit card payment expenditures amounting to \$415, and the relief association officials did not take corrective action to address the undocumented expenditures prior to the current audit period ending December 31, 2020. In addition, during the current audit period, the relief association was unable to provide adequate supporting documentation for a \$78 credit card payment expenditure on April 23, 2018.

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, such as invoices and/or itemized receipts, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: The relief association officials did not provide a reason for why this occurred despite the relief association being notified of this condition during our prior audit.

PAOLI VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE TREDYFFRIN
TOWNSHIP, CHESTER COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Continued

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

Recommendation: We again 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 \$493 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all future expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the affiliated fire company reimbursed the relief association \$493 for the undocumented expenditure on May 24, 2021.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$493 was received. Compliance for maintaining appropriate documentation for expenditures made during the next audit period will be subject to verification through our next audit.

PAOLI VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE TREDYFFRIN
TOWNSHIP, CHESTER COUNTY, PENNSYLVANIA
OBSERVATION

Observation – FDIC Coverage Limits Exceeded

As disclosed in a written observation in the two previous audits, the relief association again failed to ensure that all cash deposits were below the FDIC coverage limits per account ownership in one institution. As of December 31, 2020, the relief association's ending cash balance with the financial institution amounted to \$439,291.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United State government that protects the funds depositors place in banks and savings associations. FDIC insurance is backed by the full faith and credit of the United States government.

FDIC insurance covers all deposit accounts, including:

- Checking accounts
- Savings accounts
- Money market accounts
- Certificates of deposit

FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual funds, life insurance policies, annuities and securities. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.

Section 7413 of Act 118 states that the purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure as far as circumstances will reasonable permit, that the funds shall be available for the protection of the volunteer firefighters' and their heirs.

Furthermore, prudent business practice dictates that in addition to performing monthly bank reconciliations, the relief association should ensure the relief association's cash balance does not exceed FDIC limits set by banking regulations. Lack of effective monitoring of relief association cash and investment assets places the relief association funds at greater risk for loss.

The relief association should monitor all cash and investment assets that are eligible for FDIC insurance and ensure the balance of those assets per banking institution does not exceed FDIC coverage limits.

PAOLI VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE TREDYFFRIN
TOWNSHIP, CHESTER COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Paoli Volunteer Firemen's Relief Association of Tredyffrin Township, Chester County,
Pennsylvania Governing Body:

Mr. Thomas Robinson, III
President

Mr. J. Anderson Wilson
Vice President

Ms. Carol Trickel
Secretary

Ms. Jessica Baker
Treasurer

Mr. John W. Beatty
Director

PAOLI VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE TREDYFFRIN
TOWNSHIP, CHESTER COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

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

Mr. Eugene C. Briggs
Secretary
Easttown Township

Mr. William Martin
Secretary
Tredyffrin Township

Ms. Sally Slook
Secretary
Willistown Township

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.