

COMPLIANCE AUDIT

Penndel-Middletown Emergency Squad Relief Association Bucks County, Pennsylvania For the Period January 1, 2019, to December 31, 2021

March 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Dennis Mitchell, President
Penndel-Middletown Emergency
Squad Relief Association
Bucks County

We have conducted a compliance audit of the Penndel-Middletown Emergency Squad Relief Association (relief association) for the period January 1, 2019, to December 31, 2021. The audit was conducted 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 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.

Based on our audit procedures, we conclude that, for the period January 1, 2019, to December 31, 2021:

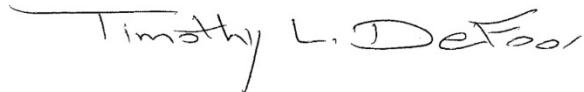
- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below, and discussed in the Status of Prior Finding section of this report.
- The relief association, in all significant respects, complied with applicable state 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 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Undocumented Expenditures

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
March 1, 2023

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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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Middletown Township	Bucks	\$65,531	\$65,538	\$57,713

Based on the relief association's records, its total cash and investments as of December 31, 2021, were \$2,551,382, as illustrated below:

Cash	\$ 24,252
Fair Value of Investments	<u>2,527,130</u>
Total Cash and Investments	<u>\$ 2,551,382</u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2021, were \$485,407, 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.⁴ **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	\$	52,385
Death benefits		<u>3,500</u>
Total Benefit Services	\$	<u>55,885</u>

Fire Services:

Equipment purchased	\$	274,356
Equipment maintenance		64,041
Training expenses		<u>4,399</u>
Total Fire Services	\$	<u>342,796</u>

Administrative Services:

Bond premiums	\$	627
Other administrative expenses *		<u>82,810</u>
Total Administrative Services	\$	<u>83,437</u>

Other Expenditures:

Unauthorized expenditures	\$	1,000
Undocumented expenditures		<u>2,289</u>
Total Other Expenditures	\$	<u>3,289</u>

Total Expenditures	\$	<u><u>485,407</u></u>
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* A majority of Other administrative expenses include \$72,000 for rental payments.

⁴ 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:

Penndel-Middletown Emergency Squad

PENNDel-MIDDLETOWN EMERGENCY SQUAD RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain A Complete And Accurate Equipment Roster

We are concerned by the relief association's failure to correct this previously reported audit finding. The relief association management should strive to implement the recommendation and corrective action noted in this audit report.

PENNDel-MIDDLETOWN EMERGENCY SQUAD 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 failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit period, it was incomplete because it did not contain the names of suppliers (vendors), dates of purchase, cost of equipment and serial numbers to accurately identify equipment owned by the relief association. As such, it was impossible to determine if all equipment purchased during the audit period in the amount of \$274,356 was recorded. Furthermore, although relief association officials indicated that a physical inventory of equipment was conducted on an annual basis, there was not sufficient evidence to demonstrate the extent of the annual physical inventories conducted.

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: The relief association officials expressed that they misinterpreted the required standards for the maintenance of an equipment roster.

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 to document the performance of an annual physical inventory of equipment prevents demonstration of adequate accountability for, and safeguarding of, relief association equipment.

PENNDel-MIDDLETOWN EMERGENCY SQUAD 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. 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.

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended \$1,000 for donations during the current audit period that are not authorized by the VFRA Act.

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

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

- (5) To pay the cost of procuring and forwarding tokens of sympathy and goodwill to a volunteer firefighter who may be ill or hospitalized as a result of participation in the fire service or who may die or who may be seriously ill for any reason.

Monetary donations do not qualify as an authorized volunteer firefighters’ relief association expenditure; consequently, this disbursement is not authorized under the VFRA Act.

Cause: Relief association officials indicated that the expenditures were entered with an incorrect description.

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

PENNDel-MIDDLETOWN EMERGENCY SQUAD RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association be reimbursed \$1,000 for the unauthorized expenditure 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 did not agree with the finding as presented at the audit exit conference and stated they would consider future similar expenses to be tokens of sympathy.

Auditor’s Conclusion: The finding remains as stated. Although the relief association believes the expenditure should qualify as a token of sympathy, based on the VFRA Act, relief associations are not permitted to make donations to organizations in the name of the relief association or on behalf of members. The VFRA Act at Section 7416 (f) (5), stipulates that state aid funds may be used to pay the cost of procuring and forwarding tokens of sympathy and goodwill *to a volunteer firefighter* who may be ill or hospitalized as a result of participation in the fire service who may die or who may be seriously ill for any reason. As such, donations made to organizations are not considered permissible under the VFRA Act and based on all supporting documentation of the expenditure provided by the relief association to our auditors, the above noted expenditures are determined to be a donation. The relief association’s journal and supporting letter/receipt of the expenditure transaction clearly stipulated the expenditure as a donation. The letter/receipt stated, in part: “On behalf of the officers and members of the PennDel Middletown Emergency Squad Relief Association, please accept this [monetary] donation to the [vendor/organization]...” Further, the expenditure payment was made directly to the vendor as a donation and not to the family or estate of a relief association member as a token of sympathy. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 3 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

Date	Check No.	Payee Description	Amount
08/20/19	1316	Training expense	\$ 714
09/14/19	1322	Training expense	1,575
Total			<u>\$ 2,289</u>

PENNDel-MIDDLETOWN EMERGENCY SQUAD RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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.

Cause: The relief association officials did not provide a reason why this occurred.

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.

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 \$2,289 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 indicated they will take action to comply with the recommendation.

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

PENNDel-MIDDLETOWN EMERGENCY SQUAD RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Penndel-Middletown Emergency Squad Relief Association Governing Body:

Mr. Dennis Mitchell
President

Mr. Zach Cooperman
Vice President

Mr. Andrew Foley
Secretary

Mr. Jason Gunsenhouser
Treasurer

Mr. Hugh Cooperman
Trustee

Mr. Anthony Reinert
Trustee

Mr. Raymond McManamon
Trustee

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

Mrs. Stephanie Teoli Kuhls
Secretary
Middletown Township

PENNDel-MIDDLETOWN EMERGENCY SQUAD RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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.