

# COMPLIANCE AUDIT

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## Phoenixville Volunteer Firefighters Relief Association Chester County, Pennsylvania For the Period January 1, 2018 to December 31, 2019

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April 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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TIMOTHY L. DEFOOR  
AUDITOR GENERAL

Mr. Ron Meadows, President  
Phoenixville Volunteer Firefighters  
Relief Association  
Chester County

We have conducted a compliance audit of the Phoenixville Volunteer Firefighters Relief Association (relief association) pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2018 to December 31, 2019.

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.

We were not able to obtain independent confirmations of a portion of the cash balance and a portion of 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, 2019, the relief association had a cash balance of \$465,583 and an investment balance with a fair value of \$294,002, we were not able to verify portions of those cash and investment balances.

We were also not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matters described in the two preceding paragraphs, for the period January 1, 2018 to December 31, 2019:

- The relief association took appropriate corrective action to address the finding contained in our prior audit 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.

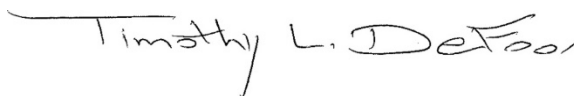
Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Finding No. 3 – Inadequate Financial Record-Keeping System

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.

March 25, 2021



Timothy L. DeFoor  
Auditor General

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## BACKGROUND

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

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

Act 118 governs the overall operation of volunteer firefighters' relief associations. 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>2018</u>	<u>2019</u>
Phoenixville Borough	Chester	\$90,503	\$99,088

Based on the relief association's records, its total cash and investments as of December 31, 2019 were \$759,585, as illustrated below:

Cash	\$ 465,583
Fair Value of Investments	<u>294,002</u>
Total Cash and Investments	<u>\$ 759,585</u>

## BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2019 were \$230,658, 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.<sup>1</sup> **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	\$ 116,384
Relief benefits	2,203
Total Benefit Services	<u>\$ 118,587</u>
Fire Services:	
Equipment purchased	\$ 61,141
Equipment maintenance	17,026
Training expenses	21,628
Total Fire Services	<u>\$ 99,795</u>
Administrative Services:	
Officer compensation	\$ 1,000
Other administrative expenses	1,434
Bond premiums	788
Total Administrative Services	<u>\$ 3,222</u>
Other Expenditures:	
Miscellaneous*	\$ 1,695
Undocumented expenditures	7,089
Unauthorized expenditures**	270
Total Other Expenditures	<u>\$ 9,054</u>
Total Expenditures	<u><u>\$ 230,658</u></u>

\* The relief association received reimbursement from their financial institution for fraudulent charges made to their debit card amounting to \$1,695 made during 2019.

\*\* During 2019, the relief association made two insignificant disbursements amounting to \$270 which were not authorized by Act 118. We disclosed this issue to the relief association officials on January 28, 2021.

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<sup>1</sup> 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:

Phoenix Hose, Hook & Ladder Co. No. 1



PHOENIXVILLE VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Untimely Deposit Of State Aid

By timely depositing all income received.

PHOENIXVILLE VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – 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
05/24/18	1521	Equipment expenditure	\$ 1,293
07/09/18	1533	Equipment expenditure	95
07/09/18	1538	Medical supplies expenditure	642
01/02/19	1579	Training expenditure	1,200
02/08/19	Debit	Equipment expenditure	205
03/13/19	1600	Website maintenance expenditure	490
03/27/19	1602	Training expenditure	65
03/27/19	1603	Training expenditure	65
06/06/19	1617	Training expenditure	210
06/06/19	1618	Training expenditure	80
06/06/19	1619	Member reimbursement expenditure	186
06/06/19	1620	Relief benefit expenditure	70
06/06/19	1621	Maintenance expenditure	1,478
06/06/19	1622	Maintenance expenditure	334
06/06/19	1623	Relief benefit expenditure	62
06/14/19	1624	Maintenance expenditures	560
07/31/19	1626	Medical supplies expenditure	46
10/24/19	debit	Training expenditure	8
Total			<u>\$ 7,089</u>

In addition, Check No. 1654 written on 01/28/20 to an equipment vendor in the amount of \$1,341 is also considered undocumented.

Criteria: Section 7418(a) of Act 118 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.

PHOENIXVILLE VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

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

Cause: The relief association officials stated that some records were misplaced during the time of the audit.

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 Act 118. In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

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 \$8,430 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, relief association provided adequate supporting documentation for fourteen of the undocumented expenditures totaling \$5,658 on February 22, 2021. The relief association officials indicated they will take action to comply with the recommendation for the remaining \$2,772 of undocumented expenditures.

Auditor's Conclusion: We reviewed the supporting documentation verifying the propriety of \$5,658 of expenditures. We continue to recommend that the relief association officials provide this department with adequate supporting documentation for the \$2,772 of undocumented expenditures or that the relief association be reimbursed \$2,772 for the remaining undocumented expenditures. Full compliance for the expenditures will be subject to verification through our next audit.

PHOENIXVILLE VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Failure To Secure Ownership Interest In Jointly Purchased Equipment**

Condition: On August 20, 2019, the relief association expended \$7,178 towards the joint purchase of a gear washer/extractor and drying cabinet with accessories totaling \$21,990 without properly securing its ownership interest.

Criteria: Section 7418(a) of Act 118 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 the relief association should secure its proportional ownership interest in the equipment that was jointly purchased by executing a formal written agreement that enumerates the relief association's proportional share of the cost of the equipment. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the equipment, in the event the equipment is ever sold.

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

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased equipment places the relief association's ownership interest at greater risk.

Recommendation: We recommend that the relief association officials provide this department with an ownership agreement for the equipment jointly purchased or that the relief association be reimbursed \$7,178 for the jointly purchased equipment. We also recommend that the relief association officials refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS for guidance on future expenditures of this nature.

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 relief association executed an agreement on February 9, 2021 with their affiliated fire company recognizing the relief association has taken sole ownership of the equipment purchased.

PHOENIXVILLE VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Auditor's Conclusion: We reviewed the documentation verifying an ownership agreement between the relief association and the affiliated fire company for the jointly purchased equipment. Compliance for ownership agreements related to joint purchases of equipment made during the next audit period will be subject to verification through our next audit.

**Finding No. 3 – 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.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Checking and money market account statements from one financial institution were not retained and had to be requested for the audit.
- A debit card is being used to pay expenditures without a formal, written policy to govern its use.

Criteria: Section 7415(a) of Act 118 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: The treasurer disclosed that his computer failed and he was unable to provide journals and ledgers. In addition, the relief association officials chose not to receive paper copies of statements from one of their financial institutions. Furthermore, relief association officials did not provide a reason for why there is no formal policy for debit card use.

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

PHOENIXVILLE VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

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 and prepare a formal policy for debit card use. 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.

PHOENIXVILLE VOLUNTEER FIREFIGHTERS RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Phoenixville Volunteer Firefighters Relief Association Governing Body:

**Mr. Ron Meadows**  
President

**Mr. Chris Brignola**  
Secretary

**Mr. James Hudson**  
Treasurer

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

**Mr. E. Jean Krack**  
Secretary  
Phoenixville Borough

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