

COMPLIANCE AUDIT

South Media Fire Company #1 Volunteer Fireman's Relief Association Delaware County, Pennsylvania For the Period January 1, 2018 to December 31, 2019

August 2020



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Robert Hopkins, President
South Media Fire Company #1 Volunteer
Fireman's Relief Association
Delaware County

We have conducted a compliance audit of the South Media Fire Company #1 Volunteer Fireman's 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 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.

In addition, due to a stay at home order issued by the Governor of the Commonwealth of Pennsylvania during the COVID-19 pandemic, we were unable to observe any of the relief association's equipment to verify its existence.

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 finding listed below and discussed later in this report.

Finding – Inadequate Signatory Authority For The Disbursement Of Funds

The contents of this report were discussed with the management of the relief association and, where appropriate, their response has 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.

August 11, 2020



EUGENE A. DEPASQUALE
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.

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

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>
Nether Providence Township	Delaware	\$43,948	\$47,666
Rose Valley Borough	Delaware	\$ 3,787	\$ 4,165

BACKGROUND – (Continued)

Based on the relief association's records, its total cash and investments as of December 31, 2019 were \$249,309, as illustrated below:

Cash	\$ 221,191
Fair Value of Investments	<u>28,118</u>
Total Cash and Investments	<u>\$ 249,309</u>

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2019 were \$82,365, 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	\$ 11,856
Tokens of sympathy and goodwill	<u>50</u>
Total Benefit Services	<u>\$ 11,906</u>
Fire Services:	
Equipment purchased	\$ 29,206
Equipment maintenance	14,144
Training expenses	25,117
Fire prevention materials	<u>165</u>
Total Fire Services	<u>\$ 68,632</u>
Administrative Services:	
Other administrative expenses	\$ 1,612
Bond premiums	<u>200</u>
Total Administrative Services	<u>\$ 1,812</u>
Other Expenditures:	
Duplicate expenditure*	<u>\$ 15</u>
Total Expenditures	<u>\$ 82,365</u>

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

BACKGROUND – (Continued)

* During 2019, the relief association made an insignificant duplicate payment in the amount of \$15 which was not authorized by Act 118. We disclosed this issue to relief association officials on July 13, 2020.

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:

South Media Fire Company #1

SOUTH MEDIA FIRE COMPANY #1 VOLUNTEER FIREMAN'S 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:

- Undocumented Expenditures

By receiving reimbursement of \$8,551 from the affiliated fire company for the undocumented expenditures that were made in the prior audit period.

SOUTH MEDIA FIRE COMPANY #1 VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 20 checks out of 78 checks drawn on the relief association's checking account that did not contain the signature of the disbursing officer, even though the disbursing officer's signature is required by Act 118 and the relief association bylaws. Although the checks contained two signatures, one of the signatures was from the relief association's President and the other signature was from the Chief of the affiliated fire company, who was not an authorized officer as required by the relief association's bylaws. Issuing checks without the signature of the disbursing officer negates the relief association's internal control over the disbursement process.

Criteria: Section 7415(c)(3) of Act 118 states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

The relief association's bylaws at Article X, Section 3 states:

The signatures of at least two (2) Officers, one of whom shall be the Treasurer, shall be required for all negotiable instruments issued by the Association including, but not limited to, checks, withdrawals, and redemption of any Association investments.

In addition, the relief association's bylaws at Article IV, Section 1 states:

The Officers of the Association shall consist of a President, Vice-President, Secretary and Treasurer.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two authorized relief association officials are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: Relief association officials revised their procedures during the audit period, and those procedures did not include the treasurer cosigning checks or being an authorized signer on the bank account. This was done because the prior treasurer was charged with theft of funds from the affiliated fire company.

SOUTH MEDIA FIRE COMPANY #1 VOLUNTEER FIREMAN'S RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: As a result of the relief association officer issuing checks without the signature of the disbursing officer, the relief association did not comply with Act 118 or its bylaws and assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

Recommendation: We recommend that the relief association officials reverse the previous decision to no longer have the treasurer sign checks and establish adequate internal control procedures to ensure that the signatures of at least two authorized officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118 and the relief association's bylaws. 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 relief association officials are currently in the process of changing their procedures to have the treasurer cosign the checks and added as an authorized signer on the bank account.

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

SOUTH MEDIA FIRE COMPANY #1 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

South Media Fire Company #1 Volunteer Fireman's Relief Association Governing Body:

Mr. Robert Hopkins
President

Ms. Ellen Yarborough
Vice President

Mr. Miles Koziol
Secretary

Ms. Linda Lawson
Treasurer

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

Mr. Gary Cummings
Secretary
Nether Providence Township

Ms. Paula Healy
Secretary
Rose Valley Borough

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.