



**AMWELL TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION**

WASHINGTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010 TO DECEMBER 31, 2012

RELEASED MARCH 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Norman R. Arthur, III, President
AMWELL TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Washington County

We have conducted a compliance audit of the Amwell Township Volunteer Firefighters' 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, 2010 to December 31, 2012.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was to determine if the volunteer firefighters' relief association received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objective identified above.

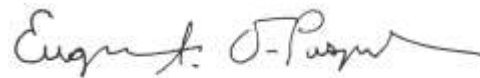
Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Amwell Township Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Amwell Township Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Amwell Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2012, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objective.

The results of our audit, for the period January 1, 2010 to December 31, 2012, found the Amwell Township Volunteer Firefighters' Relief Association, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the finding listed below and discussed later in this report. The results of our tests also indicated the Amwell Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$8,057 and no investments.

Finding – Failure to Disclose Related Party Transactions

The contents of this report were discussed with the management of the Amwell Township Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

September 25, 2013



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 Amwell Township Volunteer Firefighters' Relief Association, herein referred to as Amwell Township Volunteer Firefighters' 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 the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts 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 the volunteer firefighters' relief association 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, which is or are recognized as providing the service to the municipality.

BACKGROUND (Continued)

The Amwell Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Washington Township	Greene	\$ 1,666	\$ 2,252	\$ 1,405
Amwell Township	Washington	\$13,704	\$19,630	\$10,860

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Amwell Township Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Amwell Township Volunteer Fire Department

AMWELL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Failure to Disclose Related Party Transactions

Condition: Relief association officials failed to disclose related party transactions to the relief association membership. The relief association did business with a local vendor owned by one of the relief association's officers. During the current audit period, the relief association purchased \$6,410 of equipment from this vendor. Although the business transactions were recorded in the minutes, the relief association officer did not disclose his position with the vendor nor did he abstain from voting.

A related party transaction occurs when the relief association does business with a vendor that employs or is owned by a relief association officer or a member of an officer's immediate family. Such a transaction may provide a less than arm's length financial benefit to such officer or member of such officer's immediate family through a commission or a profit from a sale.

Criteria: Ethics laws state that all potential related party transactions should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, all officers and/or members involved with a business that is party to the related party transaction should abstain from all votes concerning such transactions.

Cause: Relief association officials were aware that a related party relationship existed between the relief association and the vendor; however, officials were not aware that the related party relationship should be disclosed in the minutes and the officer should abstain from voting.

Effect: Failure to properly disclose related party transactions may create potential conflicts of interest which could result in the relief association being involved in less than arm's length financial transactions.

Recommendation: We recommend the relief association officials take the actions necessary to eliminate the appearance of conflicts of interests. Actions should include, but are not limited to, written notification to the relief association membership for each related party transaction, and the abstention from decisions and voting rights by the relief association officials who are involved owners of businesses that have business dealings with the relief association. These actions should be documented in the relief association's minutes. Furthermore, the relief association should closely review all related party transactions to ensure that all transactions are at arm's length, i.e., the cost of the services rendered by the firm is competitive.

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.

AMWELL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2010 TO DECEMBER 31, 2012

Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 2,805
Total Benefit Services	\$ 2,805
Fire Services:	
Equipment purchased	\$ 27,278
Equipment maintenance	4,690
Total Fire Services	\$ 31,968
Administrative Services:	
Other administrative expenses	\$ 13
Total Administrative Services	\$ 13
Other Expenditures:	
Principal payments on lease-financing	\$ 10,349
Interest payments on lease-financing	2,870
Total Other Expenditures	\$ 13,219

AMWELL TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Amwell Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Norman R. Arthur, III, President

Mr. Daniel Davenport, Vice President

Mr. Norman R. Arthur, Jr., Secretary

Ms. Mary Ellen Martin-Dye, Treasurer

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

Ms. Rebecca S. McCullough, Secretary
Washington Township

Ms. Kathleen M. Wall, Secretary
Amwell Township

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.