



CHESTER TOWNSHIP VOLUNTEER FIREMEN RELIEF ASSOCIATION

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2009



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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 Chester Township Volunteer Firemen Relief Association, herein referred to as Chester 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. The Chester Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Chester Township	Delaware	\$24,307	\$25,106	\$22,973

BACKGROUND (Continued)

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

Chester Township Fire Company

Mr. Harry Dillman, President
CHESTER TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Chester 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, 2007 to December 31, 2009.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the volunteer firefighters' relief association received 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 objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Chester 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 objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Chester 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 Chester Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. 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 objectives.

The results of our audit, for the period January 1, 2007 to December 31, 2009, found the Chester Township Volunteer Firefighters' Relief Association did not take appropriate corrective action to address three of the four findings contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Chester Township Volunteer Firefighters' Relief Association, in all significant respects, received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Chester Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$23,961 and no investments.

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

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

Finding No. 4 – Inadequate Signatory Authority for the Disbursement of Funds

Finding No. 5 – Duplicate Payment

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

June 10, 2010, except for Finding No. 2, for
which the report date is February 8, 2012.

JACK WAGNER
Auditor General

CHESTER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Chester Township Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Failure to Maintain a Complete and Accurate Membership Roster

By maintaining a comprehensive listing of the relief association membership.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Chester Township Volunteer Firefighters' Relief Association has not complied with three of the four prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Although the relief association received reimbursement for the undocumented expenditures identified during the prior audit, the relief association, again, failed to maintain appropriate documentation of certain expenditures made during the current audit period. See Finding No. 1.

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster
- Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

We are concerned with the volunteer firefighters' relief association's continued failure to correct the previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

CHESTER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: As cited in our prior two audit reports, the relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
01/12/07	1166	Supply vendor	\$ 286
11/11/09	1243	Training vendor	176
		Total	<u>\$ 462</u>

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), [FN1] 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, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, good business practices dictate that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: While notified of this condition during our prior two audit reports, relief association officials, again, neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices, made it impossible to determine if the expenditures was 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.

CHESTER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We, again, recommend the relief association provide this department with adequate supporting documentation, such as an invoice, to determine the validity of the expenditures or that the relief association be reimbursed \$462 for the undocumented expenditures. We also recommend, again, 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 did not agree with the finding as presented at the audit exit conference and stated: I [Treasurer] disagree with Finding No. 1; all receipts were presented, except for one training expense, which was brought to the attention of the auditors at our first meeting.

Auditor's Conclusion: Adequate documentation was not provided for two expenditures, as noted in the condition section of this finding. In addition, considering that undocumented expenditures were identified during prior audits, this finding stands as presented.

CHESTER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our prior three audit reports, the relief association officials, again, did not maintain a complete and accurate roster of equipment owned by the relief association. While a roster was provided, it was incomplete. The relief association's equipment purchases totaled \$40,583 during the current audit period, none of which was recorded on the equipment roster. In addition, there was no indication that a physical inventory of equipment was conducted, nor whether such inventory accounted for all of the relief association's fixed assets.

Criteria: Sound business practice dictates 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 fixed assets. A cumulative equipment roster of all relief association equipment should include 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; and
- Evidence of the performance and results of an annual physical inventory.

Cause: While notified of this condition during our prior three audits, relief association officials, again, failed to establish adequate internal control procedures over fixed assets requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The 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 perform an annual physical inventory of fixed assets prevents adequate accountability for, and safeguarding of, relief association fixed assets.

However, subsequent to the audit period, the relief association submitted an equipment roster on February 8, 2012, which contained an accounting of equipment owned by the relief association; we noted a number of exceptions existed on this equipment roster. We will review the status of this issue during our next audit of the association.

CHESTER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Continued

Recommendation: We recommend the relief association officials continue to maintain a cumulative equipment roster of all relief association owned equipment. 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 and indicated they will take action to comply with the recommendation.

CHESTER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

Condition: As cited in our prior audit report, the relief association failed to maintain detailed minutes of meetings as required by Act 118. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

. . . 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.

Cause: While notified of this condition during our prior audit, relief association officials, again, failed to maintain detailed minutes of meetings as required by Act 118.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We, again, recommend the relief association maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. 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.

CHESTER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Signatory Authority for the Disbursement of Funds

Condition: During the current audit engagement, we identified 18 checks out of 86 drawn on the relief association's checking account that only contained the signature of one officer, although two signatures are required, pursuant to Act 118 and the relief association bylaws. Issuing checks with the signature of only one officer negates the relief association's internal control over the disbursement process.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) 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.

In addition, Article VIII, Section 1, of the relief association's bylaws states:

The signatures of at least two officers, one of whom shall be the Treasurer, shall be required for the issuance of relief association checks ...

Furthermore, prudent business practice dictates that the relief association have sufficient internal control procedures in place to ensure the signatures of at least two relief association officials are included on all negotiable instruments. Good internal control procedures require that checks be signed only after the propriety of the expenditures have 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, contract, etc., prior to approving the checks.

Cause: Relief association officials neglected to establish adequate internal control procedures which require the signatures of at least two officers on all negotiable instruments.

Effect: As a result of the relief association officer issuing checks with only one signature, 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 for errors occurring and going undetected, and reduces the risk of misappropriation.

Recommendation: We recommend the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

FINDINGS AND RECOMMENDATIONS

CHESTER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

Finding No. 4 – Continued

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.

CHESTER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Duplicate Payment

Condition: On August 9, 2007, the relief association expended \$320 for four batteries. On October 11, 2007, the relief association erroneously made a duplicate payment for the same four batteries. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices.

Cause: The volunteer firefighters' relief association failed to establish internal control procedures which would require that all invoices or other billing documents be canceled or otherwise effectively marked to prevent duplicate payments.

Effect: As a result of this erroneous payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend the relief association pursue reimbursement for the \$320 erroneous duplicate payment. The relief association should consider contacting the vendor to recover the duplicate payment. In addition, the relief association should establish accounting and internal control procedures to monitor future relief association 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.

CHESTER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2009

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	\$ 24,514
Tokens of sympathy and goodwill	1,004
Total Benefit Services	\$ 25,518
Fire Services:	
Equipment purchased	\$ 40,583
Equipment maintenance	4,252
Training expenses	4,545
Total Fire Services	\$ 49,380
Administrative Services:	
Miscellaneous administrative expenses	\$ 2,521
Total Administrative Services	\$ 2,521
Other Expenditures:	
Undocumented expenditures	\$ 462
Total Other Expenditures	\$ 462

CHESTER TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Chester Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Harry Dillman, President

Ms. Sally Ann Comisiak, Vice President

Ms. Jacqueline Heidin, Secretary

Ms. Sally Sadler, Treasurer

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

Mr. William P. Pisarek, Secretary
Chester Township

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.