



GARDEN CITY FIRE COMPANY RELIEF ASSOCIATION
DELAWARE COUNTY
COMPLIANCE AUDIT REPORT
FOR THE PERIOD
JANUARY 1, 2007 TO DECEMBER 31, 2011

RELEASED MAY 2013

COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL



GARDEN CITY FIRE COMPANY RELIEF ASSOCIATION

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2011



CONTENTS

Background	1
Letter From the Auditor General	3
Status of Prior Findings	7
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Secure Ownership Interest in Jointly Purchased Vehicles	8
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures	10
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures.....	12
Finding No. 4 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster	14
Finding No. 5 – Misappropriation of Relief Association Assets	16
Finding No. 6 – Inadequate Record-Keeping and Internal Controls	18
Finding No. 7 – Untimely Deposit of State Aid	20
Finding No. 8 – Inadequate Relief Association Bylaws	22
Potential Withhold of State Aid	24
Accompanying Expenditure Information	25
Report Distribution List	27



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 Garden City Fire Company Relief Association, herein referred to as Garden City 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 Garden City Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Years</u>	<u>Municipalities</u>	
	Nether Providence Township	Rose Valley Borough
2007	\$56,603	\$4,803
2008	\$57,807	\$4,882*
2009	\$53,212	\$4,260
2010	\$59,893	\$4,795
2011	\$93,223	\$7,380

* The relief association did not deposit the 2008 state aid allocation it received from Rose Valley Borough until February 26, 2009. (See Finding No. 7 in the Findings and Recommendations section of this report.)

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

Garden City Fire Company No. 1



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Louis DiDomenico, President
GARDEN CITY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Garden City 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, 2011.

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 Garden City 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 Garden City Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Garden City Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, 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, 2011, found the Garden City Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the five findings contained in our prior audit report. However, the Garden City Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Garden City Volunteer Firefighters' Relief Association did not, in all significant respects, receive and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, 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 Garden City Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$56,918 and an investment balance with a fair value of \$13,496.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Secure Ownership in Jointly Purchased Vehicles

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Finding No. 4 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 5 – Misappropriation of Relief Association Assets

Finding No. 6 – Inadequate Record-Keeping and Internal Controls

Finding No. 7 –Untimely Deposit of State Aid

Finding No. 8 – Inadequate Relief Association Bylaws

Our Department's Office of Special Investigations (OSI) conducted an investigation into suspicious transactions occurring in the Garden City Volunteer Firefighters' Relief Association and a large number of expenditures deemed undocumented at the start of the audit. The results of the investigation are included within Finding Nos. 2 and 5 of this report.

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



May 29, 2012

EUGENE A. DEPASQUALE
Auditor General



GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure to Comply With Terms of Loan Agreement

By receiving the outstanding principal balance due plus interest, in the total amount of \$103,839, on January 9, 2008, for the delinquent loan payments due from the Garden City Fire Company No. 1.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Garden City Volunteer Firefighters' Relief Association has not complied with four of the five 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 –
Failure to Secure Ownership Interest in Jointly Purchased Vehicle
- Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures
- Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures
- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

We are concerned with the volunteer firefighters' relief association's 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.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Secure Ownership Interest in Jointly Purchased Vehicles

Condition: As cited in our prior audit report, the relief association did not adequately document and secure its ownership interest in a jointly purchased vehicle. During the prior audit period, on November 17, 2004, the relief association contributed \$25,000 toward the purchase of a 2005 pumper truck titled in the name of Garden City Fire Company No. 1 and Nether Providence Township. While an agreement was provided during the prior audit, it was not signed by either party. The relief association, again, failed to provide a properly executed agreement for this 2004 expenditure during the current audit.

In addition, during the current audit period, on August 7, 2008, the relief association contributed \$25,000 toward the mounting of an aerial ladder on a 2008 chassis titled in the name of Garden City Fire Company No. 1 and Nether Providence Township. An agreement was provided for this 2008 expenditure, however, it was not properly executed; it only contained the signature of a relief association officer.

Furthermore, during the current audit period, the relief association contributed a total of \$94,254 (\$28,750 on 11/12/08 and \$65,504 on 6/29/09) toward the purchase of a 2009 Ford truck titled in the name of the Garden City Fire Company No. 1. No agreement was provided for this \$94,254 contribution.

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.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicles by executing formal written agreements that enumerate the relief association's proportional share of financing. Such agreements shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicles, in the event the vehicles are ever sold and should be signed by two representatives of each party involved.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 1 – (Continued)

Cause: Even though notified of this condition during our prior audit, relief association officials, again, neglected to establish adequate internal controls which would ensure the relief association secure its proportional ownership interest in jointly purchased vehicles.

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

Recommendation: We, again, recommend the relief association execute formal written agreements with the affiliated fire company and the municipality (where applicable) that enumerates the relief association's proportional ownership interest in the jointly purchased vehicles as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicles are ever sold. We also recommend that such agreements be signed by two representatives of each party involved. If such action is not taken, we recommend that the relief association be reimbursed \$144,254. 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.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Condition: As cited in our two prior audit reports, the relief association failed to maintain adequate supporting documentation for all expenditures made by the relief association. During the prior audit, the relief association was cited for undocumented expenditures totaling \$1,186. To address this finding, subsequent to the prior audit period, on March 22, 2012, the relief association received reimbursement from the Garden City Fire Company No. 1, in the amount of \$1,086, leaving a remaining balance of \$100 in prior audit period undocumented expenditures. In addition, during the current audit period, as a result of the special investigation conducted by OSI, it was determined that the relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
03/26/07	542	Payment to member	\$ 150
03/05/08	614	Payment to member	100
06/03/08	638	Payment to member	69
03/12/09	691	Payment to member	274
03/12/09	692	Payment to member	150
06/16/10	733	Payment to member	22
02/03/11	759	Payment to member	21
02/03/11	760	Payment to member	144
02/16/11	761	Payment to member	32
Total			<u>\$ 962</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.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – (Continued)

Without adequate supporting documentation, such as invoices, training certificates and detailed minutes of meetings, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, good business practice dictates that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: Even though notified of this condition during our two prior 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 and detailed minutes of meetings, made it impossible to determine if the expenditures were 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.

Recommendation: We, again, recommend the relief association provide this department with adequate supporting documentation, such as invoices, to determine the validity of the expenditures or that the relief association be reimbursed \$1,062 for the remaining balance of undocumented expenditures identified during the prior audit period and for the undocumented expenditures identified during the current audit period. 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.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Condition: During the prior audit, the relief association was cited for a \$200 unauthorized expenditure. To address this prior audit finding, subsequent to the prior audit period, on March 22, 2012, the relief association received reimbursement from the Garden City Fire Company No. 1 in the amount of \$200. However, during the current audit period, the relief association again made unauthorized expenditures. Specifically, the relief association expended funds during the current audit period for the following items that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Expenditure Description</u>	<u>Amount</u>
01/01/07	556	Security for fire company building	\$ 2,600
08/06/07	555	Video games	40
09/10/07	564	Security for fire company building	1,815
09/26/07	588	Security for fire company building	1,359
12/31/07	Debit	Fire company mortgage with bank	2,606
02/28/08	Debit	Fire company mortgage with bank	2,606
04/23/08	Debit	Fire company mortgage with bank	2,606
02/04/09	Debit	Fire company mortgage with bank	5,212
Total			<u>\$ 18,844</u>

In addition, on January 21, 2007, the relief association expended \$800 for equipment and on March 21, 2007, the relief association erroneously made a duplicate payment for the same equipment. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(11) states:

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

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

Furthermore, prudent business practice dictates that adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – (Continued)

Consequently, costs associated with providing security for the fire company building, the purchase of video games, and payment of the fire company mortgage are not authorized by Act 118.

Cause: Even though notified of this condition during our prior audit report, relief association officials, again, neglected to establish adequate internal control procedures to ensure that all expenditures were authorized by Act 118 and that invoices or other billing documents be canceled or otherwise effectively marked to prevent duplicate payments. In addition, the unauthorized expenditures can be attributed to the lack of oversight by relief association officials, as evidenced by the findings contained in this report.

Effect: As a result of the lack of internal controls, including relief official oversight, and the erroneous duplicate payment, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118.

Recommendation: We recommend the relief association consider contacting the vendor to recover the \$800 duplicate payment or be reimbursed \$800 for the duplicate payment. We also recommend the relief association be reimbursed \$18,844 for the unauthorized expenditures identified during the current audit period. Relief association officials should become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of future expenditures and should establish accounting and internal control procedures to ensure future relief association expenditures are authorized by Act 118. 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.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 4 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our prior two audit reports, the relief association officials, again, failed to maintain a complete and accurate roster of equipment owned by the relief association. While a roster of relief association owned equipment was provided during the current audit period, it did not include all equipment purchases made during the current audit period. Equipment purchased during the current audit period totaled \$256,619 and not all of this equipment was properly accounted for on the relief association's equipment roster provided for the current audit period. Examples of equipment items which were not accounted for on the equipment roster included; 92 pagers purchased in 2007 for \$27,760 and eight sets of gear purchased in 2008 for \$13,240. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, 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: Even though notified of this condition during our prior two audit reports, relief association officials, again, neglected 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.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 4 – (Continued)

Recommendation: We, again, recommend the relief association officials 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 sufficiently document the results of the inventory. In addition, the relief association officials should ensure that all fixed asset purchases made since December 31, 2011 are also included on the equipment roster. 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.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 5 – Misappropriation of Relief Association Assets

Condition: As a result of a special investigation conducted by our department's Office of Special Investigation, we concluded that during the current audit period, \$11,765 in relief association funds were misappropriated from the Garden City Volunteer Firefighters' Relief Association by the then treasurer. The treasurer wrote five checks to himself, endorsed those five checks and either cashed the checks or deposited these funds into his personal account. It was determined that all five checks were fraudulent transactions and were executed without proper approval or knowledge of the relief association membership. However, we were unable to definitively determine whether these five checks were pre-signed or whether the other signature was forged.

In addition to 49 counts of forgery, the former treasurer was charged with, and pled guilty to, one count each of theft by unlawful taking, theft by deception, receiving stolen property and theft by failure to make required deposition of funds. In January 2013, he was sentenced to 9-18 months in county prison with work release and four years of probation and ordered to pay restitution for stealing more than \$83,000¹ between 2008 and 2011.

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.

In addition, Article V, Section 1, of the relief association's bylaws in part states:

Funds of the Relief Association shall not be expended for any purpose other than those authorized by the provisions of the Act.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure the propriety of all relief association expenditures. The misappropriation of funds can be attributed to the lack of internal controls and lack of oversight by relief association officials, as evidenced by the findings contained in this report.

¹The \$83,000 included funds that were also misappropriated from the Garden City Fire Company No.1.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 5 – (Continued)

Effect: As a result of the misappropriation of relief association assets, the relief association funds were not available for purposes authorized by Act 118.

Recommendation: We recommend the relief association officials immediately establish internal control procedures for the review and approval of all relief association transactions in order to verify the propriety of all future expenditures. We further recommend that the relief association ensure restitution is received for all funds owed to the relief association as a result of the misappropriation. 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.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 6 – Inadequate Record-Keeping and Internal Controls

Condition: The relief association failed to establish adequate internal controls and maintain pertinent financial records. The following internal control weaknesses and financial record-keeping deficiencies existed during the audit period:

- Financial related activities were not presented, discussed, and approved at relief association meetings;
- Detailed minutes of meetings were not maintained. No minutes were provided for January 2007 through June 2007. In addition, the minutes provided did not show evidence that quorum requirements were met and did not address all of the financial transactions that occurred during the audit period;
- A journal was not maintained for 2011. Journals were maintained for 2007, 2008, 2009, and 2010, however, they were incomplete in that not all disbursements made during the audit period were recorded and those that were recorded did not reflect the correct check number, payee and transaction amount. In addition, the journals provided did not include any income received during the audit period;
- Ledgers were not utilized to record the transactions of the relief association accounts;
- Eight out of the 231 checks written during the current audit period only contained the signature of one officer;
- Other weaknesses and deficiencies identified are noted in Finding No.s 1, 2, 3, and 4.

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.

In addition, the relief association's bylaws states, in part:

- Article V, Section 1-All expenditures must be approved by a majority vote at a Relief Association meeting and duly recorded in the minutes.
- Article V, Section 3-All expenditures must be recorded in the 1 Relief Association journal and ledger.
- Article XI, Section 3-The treasurer shall be responsible for maintaining the financial records in a businesslike manner and providing them as requested to representatives of Department of Auditor General for their auditing duties.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 6 – (Continued)

- Article XII, Section 1-The signatures of the least (3) three of following (4) officers President, Vice-President, Recording Secretary, or Treasurer of the Relief Association shall be required for the issue of checks withdrawal from Relief Association accounts.

Furthermore, prudent business practice dictates that the relief association have sufficient internal control procedures in place to ensure the signatures of at least three 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 were aware of their various record-keeping responsibilities; however, they neglected to establish adequate internal control procedures requiring the maintenance of all appropriate financial records and the signatures of at least three officers on all negotiable instruments. Furthermore, the then treasurer was allowed to control all aspects of the relief association's financial activities including maintenance of the accounting records, making deposits and issuing and co-signing checks.

Effect: The failure of relief association officials to establish adequate internal controls, and provide oversight of the relief association records, prohibits the membership from effectively monitoring the relief association's financial operations and likely led to the misappropriation of assets.

Recommendation: We recommend the relief association establish and maintain a financial record-keeping system that meets the minimum record-keeping requirements of this department. The relief association should ensure checks are signed and co-signed after each authorized person has reviewed and approved the nature, purpose, and propriety of each expenditure. In addition, we recommend the relief association officials adopt internal control procedures which will require the presentation, discussion, and approval of financial activities at relief association meetings, and maintenance of detailed meeting minutes. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION.

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.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 7 – Untimely Deposit of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2008 state aid allocation it received from Rose Valley Borough, in the amount of \$4,882, until more than 130 days after receipt:

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2008	Rose Valley Borough	\$ 4,882	10/08/08	02/26/09

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that upon receipt of the state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

Cause: The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 19, 2008, who forwarded this state aid to the volunteer firefighters' relief association on October 8, 2008, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Upon receipt of the state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

The relief association failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 7 – (Continued)

Recommendation: We recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. 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.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 8 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the Garden City Volunteer Firefighters' Relief Association do not adequately address all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not require that one of the three required signatures on all negotiable instruments be that of the disbursing officer. In addition, the bylaws do not require that the amount of the Surety (Fidelity) bond be at least as great as the relief association's maximum cash balance.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3 and 4) states, that the relief association's bylaws shall:

- (3) 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.
- (4) Require that the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against funds of the association.

Furthermore, the relief association bylaws state the signatures of the least (3) three of following (4) officers: President, Vice-President, Recording Secretary, or Treasurer, of the Relief Association, shall be required for the issuance of checks withdrawal from Relief Association accounts.

Cause: Even though notified, in a verbal observation during our prior audit that the relief association's bylaws require that one of the three signatures on all negotiable instruments be that of the disbursing officer, relief association officials failed to ensure the bylaws adequately addressed all provisions established by Act 118.

Effect: As a result of the mandatory provisions not being adequately addressed in the relief association's bylaws, the relief association may have conducted its affairs without proper authorization. In addition, since the bylaws did not require the amount of the relief association's Surety (Fidelity) bond to be as great as the maximum cash balance, the relief association's cash assets were not adequately safeguarded.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 8 - Continued

Recommendation: We recommend that relief association officials review and update the bylaws governing their organization so that the bylaws adequately address the requirements set forth in Act 118 and properly authorize the expenditure of relief association funds. 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.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions of the repeat findings, such as those reported in Finding Nos. 1, 2, 3, and 4, and the condition reported in Finding No. 5, may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2011

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	\$ 29,364
Total Benefit Services	<u>\$ 29,364</u>
Fire Services:	
Equipment purchased	\$ 265,619
Equipment maintenance	36,375
Training expenses	8,731
Total Fire Services	<u>\$ 310,725</u>
Administrative Services:	
Rental expenses	\$ 35,262
Other administrative expenses	2,155
Total Administrative Services	<u>\$ 37,417</u>
Other Expenditures:	
Misappropriation of assets *	\$ 11,765
Undocumented expenditures **	962
Unauthorized expenditures ***	18,844
Principal payments on lease-financing	166,750
Interest payments on lease-financing	33,170
Total Other Expenditures	<u>\$ 231,491</u>

* See Finding No. 5 in the Findings and Recommendations section of this report.

** See Finding No. 2 in the Findings and Recommendations section of this report.

*** See Finding No. 3 in the Findings and Recommendations section of this report.



GARDEN CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Garden City Volunteer Firefighters' Relief Association Governing Body:

Mr. Louis DiDomenico, President

Mr. George Moore, Jr., Vice President/Acting Treasurer

Ms. Nicole Cassella, Secretary

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

Mr. Gary J. Cummings, Secretary
Nether Providence Township

Ms. Paula W. Healy, Secretary
Rose Valley Borough

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.news@auditorgen.state.pa.us.