

**MODENA FIREMEN'S RELIEF ASSOCIATION OF THE
STATE OF PENNSYLVANIA**

CHESTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2010

Released March 2013



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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 Modena Firemen's Relief Association of the State of Pennsylvania, herein referred to as Modena 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 Modena Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
East Fallowfield Township	Chester	\$15,163	\$16,009	\$22,339	\$25,144
Modena Borough	Chester	\$ 3,388	\$ 3,481	\$ 3,060	\$ 3,444
Newlin Township	Chester	\$ 2,815	\$ 2,969	\$ 2,687	\$ 3,025
South Coatesville Borough	Chester	\$ 6,645	\$ 6,855	\$ 6,338	\$ 7,134
West Marlborough Township	Chester	\$ 1,423	\$ 2,628	\$ 2,450	\$ 2,758

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

Modena Fire Company No. 1



**Commonwealth of Pennsylvania
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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Frank Dowlin, President
MODENA VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Chester County

We have conducted a compliance audit of the Modena 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, 2010.

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 Modena 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 Modena Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Modena Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2010, 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, 2010, found the Modena Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the four findings contained in our prior audit report. However, the Modena 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 Modena 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 Modena Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$25,294 and an investment balance with a fair value of \$86,844.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Disclose Related Party Transactions

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

July 12, 2011, except for Finding No. 3, for
which the date is February 15, 2012.

EUGENE A. DEPASQUALE
Auditor General

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Untimely Deposit of State Aid

By adopting internal control procedures to ensure the timely deposit of all income received.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Modena 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 –
Failure to Maintain a Complete and Accurate Equipment Roster
- Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings
- Noncompliance With Prior Audit Recommendation –
Failure to Disclose Related Party Transactions

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

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our prior audit report, 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, it was incomplete and did not accurately identify equipment owned by the relief association. Specifically, the equipment roster provided during the current audit period did not contain unit costs and names of suppliers. In addition, the equipment roster did not include an overhead projector, rescue mannequin, and two cameras purchased during the current audit period. During the current period, the relief association purchased \$2,754 in equipment which has not been properly accounted for on the relief association's equipment roster. Furthermore, 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 audit, relief association officials, again, neglected to establish adequate internal control procedures over fixed assets requiring the maintenance of a cumulative equipment roster detailing all of the required information listed in the criteria section above 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.

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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 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 as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

Condition: As cited in our prior audit report, the relief association officials, again, 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, neglected 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.

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Disclose Related Party Transactions

Condition: A related party transaction occurs when the relief association does business with a relief association officer. Such a transaction may provide a less than arm's length financial benefit to such officer through a commission or a profit from a sale. As cited in our prior audit report, relief association officials, again, failed to disclose related party transactions that occurred during the current audit period, with relief association membership. As detailed in the chart below, the relief association's treasurer and another relief association officer signed checks, made out to the treasurer totaling \$8,445 for training he provided to relief association members. However, none of these transactions were recorded in the meeting minutes provided for the current audit period; therefore, we found no evidence that these transactions were presented to the relief association membership for approval during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/11/07	117	American Red Cross ERC & CPR/AED Training	\$ 1,200
05/01/07	121	American Red Cross ERC & CPR/AED Training	400
01/30/08	156	American Red Cross CPR Pro Recert. Training	1,040
01/30/08	157	American Red Cross BSI Certification Training	260
11/21/08	183	American Red Cross ERC & CPR/AED Training	1,125
11/26/08	184	American Red Cross ERC & CPR/AED Training	250
02/13/09	201	American Red Cross ERC, CPR/AED, & BSI Training	1,120
03/01/09	203	American Red Cross ERC & CPR/AED Training	120
12/15/09	251	American Red Cross ERC & CPR/AED Training	2,050
01/25/10	261	American Red Cross ERC & CPR/AED Training	880
Total			<u>\$ 8,445</u>

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 relief association and/or members involved with a business that is party to the related party transaction should abstain from all votes concerning such transactions.

Cause: While notified of this condition during our prior audit, relief association officials, again, neglected to disclose to the membership each related party transaction or document each related party transaction in its minutes. Furthermore, the treasurer did not abstain from voting on these transactions as required, since these transactions benefited him.

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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, again, recommend the relief association officials take the actions necessary to eliminate 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 provide services to the relief association and who are involved owners of businesses that have business dealings with the relief association. These actions should be clearly and fully 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 such vendors are competitive.

Management's Response: Relief association management did not respond to a February 1, 2012 phone call and a February 15, 2012 email notifying them the Failure to Disclose Related Party Transactions finding was issued.

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2010

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	\$ 19,506
Total Benefit Services	\$ 19,506
Fire Services:	
Equipment purchased	\$ 77,690
Equipment maintenance	33,786
Training expenses	23,368
Fire prevention materials	6,724
Total Fire Services	\$ 141,568
Administrative Services:	
Miscellaneous administrative expenses	\$ 1,664
Total Administrative Services	\$ 1,664
Total Investments Purchased:	\$ 122,600



MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Modena Volunteer Firefighters' Relief Association Governing Body:

Mr. Frank Dowlin, President

Mr. Charles Wallace, Vice President

Ms. Shannon Dowlin, Secretary

Mr. Douglas Dowlin, Treasurer

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

Ms. Denise Miller, Secretary
East Fallowfield Township

Ms. Jane Ross, Secretary
Modena Borough

Ms. Gail A. Abel, Secretary
Newlin Township

Ms. Stephanie Smith-Dowridge, Secretary
South Coatesville Borough

Ms. Shirley K. Walton, Secretary
West Marlborough 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.