



MODENA FIREMEN'S RELIEF ASSOCIATION OF THE STATE OF PENNSYLVANIA

HEREIN REFERRED TO AS:

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

CHESTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2004 TO DECEMBER 31, 2006



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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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), 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 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 84 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 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, 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>2004</u>	<u>2005</u>	<u>2006</u>
East Fallowfield Township	Chester	\$11,825	\$ 13,743	\$ 14,469
Modena Borough	Chester	\$ 3,293	\$ 3,469	\$ 3,467
Newlin Township	Chester	\$ 2,179	\$ 2,530	\$ 2,650
South Coatesville Borough	Chester	\$ 5,931	\$ 6,475	\$ 6,466
West Marlborough Township	Chester	\$ 1,232	\$ 1,331	\$ 1,358

However, the 2006 state aid from Newlin Township was not deposited into a relief association account until September 19, 2007.

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 Co. #1

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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2004 to December 31, 2006. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

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 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 applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objectives. We also tested transactions, confirmed the Modena Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2006, with the custodians of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our audit for the period January 1, 2004 to December 31, 2006, found, in all significant respects, the Modena Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report. The results of our tests indicated the Modena Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2006, had a cash balance of \$20,023 and an investment balance with a fair value of \$86,126.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Untimely Deposit of State Aid

Finding No. 2 – Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 3 – Inadequate Minutes of Meetings

Finding No. 4 – Related Party Situation

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.

December 13, 2007

JACK WAGNER
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:

- Failure to Maintain a Complete and Accurate Membership Roster

By maintaining a comprehensive roster of all relief association membership.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Modena Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This issue is further discussed in the following finding noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Untimely Deposit of State Aid

We are concerned with the volunteer firefighters' relief association's failure to correct a previously reported audit finding. 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 –
Untimely Deposit of State Aid

Condition: As cited in the prior audit report, the relief association did not timely deposit its state aid allocation from Newlin Township. During the current audit period, the relief association again did not timely deposit its state aid allocation from Newlin Township. Specifically, the volunteer firefighters' relief association did not deposit the 2006 state aid allocation it received from Newlin Township, in the amount of \$2,650, until September 19, 2007.

Criteria: The foreign fire insurance tax allocation was distributed to the municipal treasurer, who forwarded this state aid to the volunteer firefighters' relief association on October 31, 2006, which is within the 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.

Cause: While notified of this condition in the prior audit report, the relief association failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner. According to the relief association officials, the state aid was erroneously deposited into a fire company account.

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 can lead to a greater risk that funds could be lost or misappropriated.

Recommendation: We again 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.

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not 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, it did not accurately identify equipment owned by the relief association. Specifically, the roster of equipment that was provided did not contain all dates of purchase, unit costs, names of suppliers, or serial numbers, where applicable, to accurately identify equipment owned. As such, it was impossible to determine if all items purchased during the audit period had been accurately recorded. In addition, there was no indication that the relief association was performing an annual inventory of all equipment owned to account for the relief association's fixed assets.

Criteria: 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 roster of all relief association equipment should include the following:

- Type of equipment purchased.
- Date of purchase.
- Unit cost.
- Name of supplier.
- Serial number, if applicable.
- Current location of item.
- Final disposition of sold or damaged equipment.
- Notation of the annual inventory.

Cause: Relief association officials failed to establish adequate internal control procedures over fixed assets to include the maintenance of a cumulative equipment roster and the performance of an annual equipment inventory to account for the relief association's fixed assets.

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 equipment inventory prevents relief association officials from adequately accounting for and safeguarding of relief association assets.

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend the relief association officials maintain a cumulative roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual inventory of all operable equipment and that 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. 3 – Inadequate Minutes of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings, as required by Act 84. Specifically, the relief association's minutes did not address all of the financial-related transactions, which occurred during the period under review. In addition, due to the lack of detail in the meeting minutes provided, we could not determine if a sufficient number of members were present to meet the relief association's quorum requirements.

Criteria: Act 84 at 53 P.S. § 8505(a) states, in part, that the relief association:

. . . must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

Cause: Relief association officials were unaware that maintaining detailed minutes of meetings was required by Act 84.

Effect: The failure to maintain detailed minutes of meetings prevented the verification as to whether all relief association business was presented before the membership for approval.

Recommendation: We recommend the relief association maintain detailed minutes of meetings, including 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. 4 – Related Party Situation

Condition: During the current audit, we determined that relief association officials failed to disclose a related party situation to the association membership. Specifically, the relief association has a related party situation that exists because, during the current period under review, the relief association disbursed a total of \$5,000 to two officers of the relief association for training they provided to relief association members. However, none of the relief association meeting minutes supplied for review during the current audit indicated that these transactions were presented to the relief association membership for approval.

In addition, according to relief association officials, the individuals involved in the related party transactions did not abstain from all votes concerning their occupation.

A related party situation occurs when the relief association deals with a business that employs or is owned by a relief association officer or a member of an officer's immediate family. Such a situation may provide a financial benefit to the related party through a commission or a profit from a sale.

Criteria: All related party situations should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, the individual involved in the related party situation should abstain from all votes concerning his place of employment.

Cause: Relief association officials were aware that related party situations should be disclosed to the membership but were unaware that each transaction needed to be documented in the minutes. Furthermore, the officials did not know that the individual needed to abstain from decisions and voting on transactions involving his place of employment.

Effect: Failure to properly disclose a related party situation may create a potential conflict of interest which could result in the appearance that the relief association officer involved in the related party situation may have exploited his capacity as an officer for his personal benefit. A conflict of interest can exist even if there are no improper acts as a result of it. The existence of an undisclosed related party situation creates an environment where the relief association membership may not be aware of the amounts, frequency, and purpose of the disbursements made to relief association officers.

Recommendation: We recommend the relief association officials take the actions necessary to eliminate the appearance of a conflict of interest. Actions should include, but are not limited to, a written notification to the relief association membership of each related party transaction, and the abstention of the relief association official from decisions and voting rights which involve his place of employment. These actions should be documented in the relief association's minutes. Furthermore, the relief association should closely review all related party transactions to ensure that the cost of the services rendered by the firm is competitive.

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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.

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2006

Act 84 at 53 P.S. § 8502(1) states, in part, that:

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. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, 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. 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	\$ 10,401
Total Benefit Services	\$ 10,401
Fire Services:	
Equipment purchased	\$ 49,980
Equipment maintenance	4,758
Training expenses	12,449
Total Fire Services	\$ 67,187
Administrative Services:	
Miscellaneous administrative expenses	\$ 248
Total Administrative Services	\$ 248
Total Investments Purchased	\$ 155,000

MODENA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Modena Volunteer Firefighters' Relief Association Officers:

Mr. Frank Dowlin, President

Mr. Charles Wallace, Vice President

Ms. Shannon Dowlin, Secretary

Mr. Douglas Dowlin, Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Denise Miller, Secretary
East Fallowfield Township

Ms. Sandy Frost, Secretary
Modena Borough

Ms. Cynthia Olliff, 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.