

COMPLIANCE AUDIT

Monaca Volunteer Fire Company No. 5,
Fireman's Relief Association of the State
of Pennsylvania
Beaver County
For the Period
January 1, 2017 to December 31, 2019

February 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. John W. Melvin, Jr., President
Monaca Volunteer Fire Company No. 5,
Fireman's Relief Association of the
State of Pennsylvania
Beaver County

We have conducted a compliance audit of the Monaca Volunteer Fire Company No. 5, Fireman's Relief Association of the State of Pennsylvania (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, 2017 to December 31, 2019.

The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective identified above and was not, nor was it required to be, conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the 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. Relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, because of the significance of the matters described in the findings below and discussed later in this report, the relief association did not, in all significant respects, comply with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, collectively as a whole, for the period January 1, 2017 to December 31, 2019. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Potential Misappropriation of Assets

Finding No. 2 – Undocumented Expenditures

Finding No. 3 – Inadequate Financial Record-Keeping System

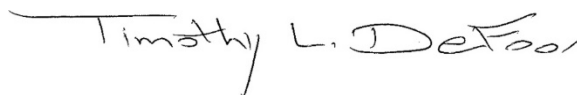
Finding No. 4 – Inadequate Minutes Of Meetings

The four findings contained in this report cite conditions that existed in the operation of the relief association during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

Our department cooperated in an investigation by the Monaca Police Department into alleged illegal activities regarding the relief association. The results and findings of this audit report are being forwarded to the Monaca Police Department for review and whatever further action it may deem appropriate and necessary.

We are also providing a copy of this audit report to the Beaver County, Pennsylvania District Attorney's Office to determine whether any criminal laws of this Commonwealth have been violated and/or for whatever action it may deem appropriate and necessary.

The contents of this report were discussed with the management of the relief association, and, where appropriate, their responses have been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor
Auditor General

December 10, 2020

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Potential Misappropriation of Assets.....	4
Finding No. 2 – Undocumented Expenditures	7
Finding No. 3 – Inadequate Financial Record-Keeping System.....	8
Finding No. 4 – Inadequate Minutes Of Meetings.....	9
Potential Withhold of State Aid.....	12
Report Distribution List	13

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 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 volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct 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 relief associations 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 that is or are recognized as providing the service to the municipality.

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Monaca Borough	Beaver	\$8,751	\$7,967	\$8,550

BACKGROUND – (Continued)

Based on the relief association’s records, its total cash as of December 31, 2019 was \$33, as illustrated below:

Cash	\$ 33
------	-------

Based on the relief association’s records, its total expenditures for the period January 1, 2017 to December 31, 2019 were \$98,855, as noted below. The accuracy of these expenditures was evaluated as part of the Department’s audit to conclude on the relief association’s compliance with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds.¹ **The scope of the Department’s audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Benefit Services:	
Insurance premiums	\$ 10,828
Death benefits	750
Total Benefit Services	\$ 11,578
Fire Services:	
Equipment purchased	\$ 37,620
Equipment maintenance	5,641
Training expenses	1,986
Total Fire Services	\$ 45,327
Administrative Services:	
Other administrative expenses	\$ 189
Bond premiums	250
Total Administrative Services	\$ 439
Other Expenditures:	
Undocumented expenditures	\$ 2,498
Potential Misappropriation*	39,093
Total Other Expenditures	\$ 41,591
Total Expenditures	\$ 98,855

¹ Accuracy was evaluated for all transactions during the audit period for which relevant documentation was available.

BACKGROUND – (Continued)

- * As disclosed in Finding No. 1, the relief association was not able to provide adequate supporting documentation for expenditures/withdrawals totaling \$39,093 during the audit period and \$370 subsequent to the period under review that appear to be for unauthorized purposes and possibly represent misappropriation of assets.

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

Monaca Volunteer Company No. 5

MONACA VOLUNTEER FIRE COMPANY NO. 5, FIREMAN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Potential Misappropriation of Assets

Condition: According to the *Beaver County Times*, it was reported by relief association officials and local police that a former relief association treasurer stole more than \$30,000 from the relief association. The article further indicated that according to police, the former treasurer admitted to improperly using relief association funds for personal use to help him through tough financial hardships. Our audit found numerous potentially fraudulent cash withdrawals and purchases made between June 2018 and February 2020 totaling \$39,463, with \$39,093 occurring in the current audit period and an additional \$370 that occurred after the audit period. Evidence indicates that the relief association bank debit card was used for ATM cash withdrawals and retail purchases for personal use and a relief association check was used to withdraw cash for personal use as summarized in the table below.

Year	Number of Potentially Fraudulent Transactions	Amount
2018	97	\$25,521
2019	39	\$13,572
2020	4	\$ 370
Total	140	\$39,463

The 140 transactions were comprised of:

- 132 ATM debit card cash withdrawals (4 of which were subsequent to the audit period)
- 7 debit card purchases
- 1 check written to cash for \$2,000

We determined that these transactions may represent misappropriation of assets because the relief association could not provide any documentation to support that the funds withdrawn or expended were used for purposes authorized by Act 118 and, although definitive evidence of fraudulent use does not exist for the transactions, the nature of the transactions, including ATM withdrawals, a check written to “cash,” and debit card purchase transactions for items that appeared to be for personal use, along with the statement from the police that the former treasurer admitted to improper use of funds and other factors that we considered, led us to the conclusion that the transactions described in this finding may have been fraudulent. Finding No. 2 includes additional transactions that were also not supported by adequate documentation that we concluded were less suspicious based on the nature of the transactions and other factors.

The 7 debit card purchases were at retail vendors, appear to be for personal use, and totaled \$978 (6/10/18 \$34, 6/11/18 \$165, 6/24/18 \$79, 7/4/18 \$179, 7/4/18 \$29, 8/7/18 \$263, 8/16/18 \$229).

MONACA VOLUNTEER FIRE COMPANY NO. 5, FIREMAN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

The ATM cash withdrawals range from a low of \$20 to a high of \$500.

Criteria: Act 118 at 53 P.S. § 8507(a) states, in part:

The Department of the Auditor General shall have the power, and its duty shall be, to audit the accounts and records of every volunteer firefighters' relief association receiving any money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the "Municipal Pension Plan Funding Standard and Recovery Act," as amended, as far as be necessary to satisfy the department that the money received was expended or is being expended for no purpose other than that authorized by this act.

Section 7415(a) of Act 118 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.

Article VII, of the relief association's bylaws states:

All funds of this Association shall not be expended for any purpose other than that which is authorized in Act 118, or of these Bylaws. All expenditures must be voted on at association regular meeting and pass by a majority vote. All expenditures must be made through this association. All expenditures must be recorded in the minutes and ledger, with all such documentation such as cancelled checks, invoices filed, to verify expenditures.

Article IX, 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 on all Relief Association checks savings accounts and any investments which are sold.

Prudent business practice dictates that management must establish an adequate internal control system to ensure that its operations are functioning in a manner that achieves the entity's mission while safeguarding its assets including, but not limited to prohibition of checks written to cash and prohibition of cash withdrawals from debit and credit cards. Further, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of financial transactions.

MONACA VOLUNTEER FIRE COMPANY NO. 5, FIREMAN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Relief association officials failed to establish an adequate internal control system to ensure the propriety of all expenditures and that relief association monetary assets were adequately protected. See Finding No. 3 and Finding No. 4 for additional information.

Effect: Weaknesses in the relief association's internal controls allowed the former treasurer to potentially misappropriate \$39,463 (including \$370 of withdrawals made after the audit period) of relief association funds. This inappropriate usage reduced funds available for authorized relief association activities. Furthermore, the relief association's future state aid allocations may be withheld until the relief association complies with the finding recommendation.

Recommendation: We recommend that the relief association officials seek reimbursement of \$39,463 for the transactions noted above. We also recommend that relief association officials develop and implement an adequate written internal control system to include, but not be limited to, the following:

- Adequate segregation of duties to safeguard the relief association assets.
- Performance of monthly bank reconciliations.
- Approval of expenditures by two relief association officials after review of supporting documentation and prior to payment of purchases with evidence of approval via signatures.
- Formation of a written policy pertaining to the use and safekeeping of the relief association's bank debit card or cancellation of the debit card and prohibition of the use of debit cards.

Additionally, see additional internal control recommendations noted in Finding No. 3 and Finding No. 4.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTER'S 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.

Auditor's Conclusion: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

MONACA VOLUNTEER FIRE COMPANY NO. 5, FIREMAN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

Date	Check No.	Payee Description	Amount
02/17/17	1015	Training vendor	\$ 50
02/15/17	1016	Training vendor	75
03/06/17	1017	Training vendor	154
03/25/17	EFT	Training vendor	640
03/28/17	EFT	Training vendor	640
07/10/17	1024	Training vendor	28
08/15/17	EFT	Training vendor	475
11/04/17	EFT	Administrative vendor	10
12/07/17	EFT	Administrative vendor	7
01/11/18	EFT	Training vendor	13
02/21/18	1032	Training vendor	100
03/28/18	1034	Training vendor	100
02/25/19	EFT	Training vendor	72
02/28/19	EFT	Maintenance vendor	34
06/13/19	1054	Training vendor	100
Total			<u>\$ 2,498</u>

Criteria: Section 7418(a) of Act 118 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), 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.

Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: The relief association officials did not provide a reason for why this occurred.

MONACA VOLUNTEER FIRE COMPANY NO. 5, FIREMAN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of Act 118. 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. Furthermore, the relief association's future state aid allocations may be withheld until the relief association complies with the finding recommendation.

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$2,498 for the undocumented expenditures. 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.

Auditor's Conclusion: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

Finding No. 3 – Inadequate Financial Record Keeping System

Condition: The relief association's financial record-keeping system did not establish adequate accounting procedures to allow the membership to effectively monitor the relief association's financial operations. The following are the noted deficiencies:

- A journal was not maintained to record the receipts and disbursements of the relief association.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Documentation to support various expenditures was not available for examination at the time of the audit.

MONACA VOLUNTEER FIRE COMPANY NO. 5, FIREMAN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Section 7415(a) of Act 118 states:

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it 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, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials indicated that they were unaware of their various record-keeping responsibilities.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations and funds may be lost or misappropriated.

Recommendation: We recommend that the relief association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations. 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

Finding No. 4 – Inadequate Minutes Of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings as required by Act 118 and the relief association's bylaws. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period including, but not limited to, several debit card purchase transactions at various vendors and numerous ATM cash withdrawals that should have been discussed and approved by the relief association membership.

MONACA VOLUNTEER FIRE COMPANY NO. 5, FIREMAN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Criteria: Section 7415(a) of Act 118 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.

The relief association's bylaws at Article IV, Section 1 states:

The stated meetings of this Association shall be held on the first Thursday of each month, provided that there is business to transact, after the regular meeting of the Monaca Volunteer Fire Co. No. 5. Seven members must create a quorum.

The relief association's bylaws at Article IV, Section 2 states:

Special stated meetings may be called by the President or the President shall call a meeting at the written request of seven members. All members must receive ample notification of any special meeting called.

The relief association's bylaws at Article IV, Section 3 states:

Order of Business: 1) Call to order, 2) Roll call, 3) Reading of minutes of previous meeting, 4) Treasurers report, 5) Communications and bills read and disposed of, 6) Committee reports, 7) Old business, 8) New business, 9) For the good of the Association, 10) Adjournment.

Cause: Relief association officials indicated that they were unaware that maintaining detailed minutes of meetings was required by Act 118 and the relief association's bylaws.

Effect: The failure to maintain detailed meeting minutes documenting the discussion and approval of relief association business and expenditure transactions increases the risk of misappropriation of relief association assets.

Recommendation: We recommend that the relief association officials 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.

MONACA VOLUNTEER FIRE COMPANY NO. 5, FIREMAN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA
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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

MONACA VOLUNTEER FIRE COMPANY NO. 5, FIREMAN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA
POTENTIAL WITHHOLD OF STATE AID

Conditions such as that reported by Finding Nos. 1 and 2 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action may 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 relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

MONACA VOLUNTEER FIRE COMPANY NO. 5, FIREMAN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Monaca Police Department
David Mosura

Beaver County District Attorney
David J. Lozier

Monaca Volunteer Fire Company No. 5, Fireman's Relief Association of the State of
Pennsylvania Governing Body:

Mr. John W. Melvin, Jr.
President

Mr. Robert W. Tanner
Vice President

Ms. Carrie Bonzo
Secretary

Mr. Thomas Steffler
Treasurer

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

Mr. Mario N. Leone, Jr.
Secretary
Monaca Borough

MONACA VOLUNTEER FIRE COMPANY NO. 5, FIREMAN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.