

COMPLIANCE AUDIT

The Volunteer Firemen's Relief Association of Upper Darby Township

Delaware County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2016

February 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. James Flanigan, President
The Volunteer Firemen's Relief
Association of Upper Darby Township
Delaware County

We have conducted a compliance audit of the Volunteer Firemen's Relief Association of Upper Darby Township (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, 2015 to December 31, 2016.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding contained in our prior audit report.
2. 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 objectives identified above and was not required to be and was not 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 objectives. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain independent confirmations of a portion of the cash balance and a portion of the investment balance directly from the financial institutions. Therefore, while the relief association provided bank and investment statements that indicated that, as of December 31, 2016, the relief association had a cash balance of \$929,114 and an investment balance with a fair value of \$2,572,042, we were not able to verify portions of those cash and investment balances.

We were also not able to obtain copies of canceled or imaged checks from the relief association for one of the two accounts from which checks were written. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matters described in the preceding paragraphs, for the period January 1, 2015 to December 31, 2016:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- The relief association, in all significant respects, 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, except as noted in the finding listed below and discussed later in this report.

Finding – Failure To Maintain A Complete And Accurate Equipment Roster

We have also issued the observation below as detailed in the Observation section of this report.

Observation – FDIC Coverage Limits Exceeded

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with the management of the relief association and where appropriate, their response has 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.

February 21, 2018



EUGENE A. DEPASQUALE
Auditor General

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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 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.

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2015</u>	<u>2016</u>
Upper Darby Township	Delaware	\$294,168	\$261,537

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

Cardington Stonehurst Fire Company

Garrettford – Drexel Hill Fire Company

Highland Park Fire Company

Primos-Secane Fire Company

Upper Darby Fire Company

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the following prior audit finding, as follows:

- Failure To Secure Ownership Interest In Jointly Purchased Equipment

By executing a written formal agreement with the affiliated fire company that adequately secures its proportional ownership interest in the jointly purchased vehicle.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
FINDING AND RECOMMENDATION

Finding – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although the relief association provided five separate rosters of equipment owned by the relief association for five affiliated fire companies, these separate rosters were compiled by each respective affiliated fire company rather than the relief association, and the rosters were comprised of the current audit period only, not a cumulative roster. In addition, the rosters were incomplete and did not accurately identify all of the \$363,435 of equipment purchased during the audit period. While it is not necessary for each of the affiliated fire companies and the relief association to maintain separate records, it is the relief association's responsibility to have sufficient records to be able to determine that all relief association owned equipment has been recorded and accounted for.

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

Cause: Relief association officials failed to establish adequate internal control procedures over equipment by requiring the maintenance of a cumulative equipment roster.

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 prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Relief association management agreed with the finding as presented and indicated they will take action to comply with the recommendation.

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

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
OBSERVATION

Observation – FDIC Coverage Limits Exceeded

As disclosed in a verbal observation in the two previous audits, the relief association again failed to ensure that all cash deposits were below the FDIC coverage limits per account ownership in one institution. As of December 31, 2016, the relief association's ending cash balance with one financial institution amounted to \$730,320.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United State government that protects the funds depositors place in banks and savings associations. FDIC insurance is backed by the full faith and credit of the United States government.

FDIC insurance covers all deposit accounts, including:

- Checking accounts
- Savings accounts
- Money market accounts
- Certificates of deposit

FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual funds, life insurance policies, annuities and securities. The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.

Act 118 at 35 Pa.C.S. § 7413 states that the purpose of this subchapter is to encourage individuals to take part in the fire service as volunteer firefighters by establishing criteria and standards for orderly administration and conduct of affairs of firefighters' relief associations to ensure as far as circumstances will reasonable permit, that the funds shall be available for the protection of the volunteer firefighters' and their heirs.

Furthermore, prudent business practice dictates that in addition to performing monthly bank reconciliations, the relief association should ensure the relief association's cash balance does not exceed FDIC limits set by banking regulations. Lack of effective monitoring of relief association cash and investment assets places the relief association funds at greater risk for loss.

The relief association should monitor all cash and investment assets that are eligible for FDIC insurance and ensure the balance of those assets per banking institution does not exceed FDIC coverage limits.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2016

Cash	\$ 929,114
Fair Value of Investments	2,572,042
Book Value of Other Investments	<u>615,277</u>
Total Cash and Investments	<u>\$ 4,116,433</u>

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 2,545
Death benefits	238,000
Relief benefits	260
Total Benefit Services	\$ 240,805
Fire Services:	
Equipment Purchased	\$ 363,435
Equipment maintenance	16,853
Training expenses	5,995
Total Fire Services	\$ 386,283
Administrative Services:	
Officer compensation	\$ 58,863
Other administrative expenses	35,809
Bond premiums	502
Total Administrative Services	\$ 95,174
Total Investments Purchased	\$ 351,451
Other Expenditures:	
Expenses related to sale of asset	\$ 16,318
Total Expenditures	\$ 1,090,031

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Volunteer Firemen's Relief Association of Upper Darby Township Governing Body:

Mr. James Flanigan
President

Mr. James Hoban
Vice President

Mr. Kenneth Bullwinkle
Secretary

Mr. Matthew Bruce
Treasurer

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

Mr. Thomas A. Judge
Chief Administrative Officer
Upper Darby Township

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.