

COMPLIANCE AUDIT

The Volunteer Firemen's Relief Association of The Borough of Darby, Pennsylvania Delaware County For the Period January 1, 2012 to December 31, 2014

November 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Jason O'Neill, President
DARBY BOROUGH VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Darby Borough 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, 2012 to December 31, 2014.

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.
2. To determine if the volunteer firefighters' relief association received state aid 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 Darby Borough 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. Volunteer firefighters' 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 an independent confirmation of a portion of the investment balances directly from the financial institution. Therefore, while the Darby Borough Volunteer Firefighters' Relief Association provided copies of investment statements that indicated that, as of December 31, 2014, the volunteer firefighters' relief association had an investment balance of \$125,259, we were not able to verify portions of this investment balance.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matters described in the preceding paragraph, for the period January 1, 2012 to December 31, 2014:

- The Darby Borough Volunteer Firefighters' Relief Association took appropriate corrective action to address three of the five findings contained in our prior audit report. However, the Darby Borough Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- The Darby Borough Volunteer Firefighters' Relief Association, in all significant respects, received state aid 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 later in this report.

Finding No.1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

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

Finding No. 3 – Unauthorized Expenditures

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

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

October 27, 2015



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures	6
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings	7
Finding No. 3 – Unauthorized Expenditures.....	8
Supplementary Financial Information	10
Report Distribution List	11

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 Volunteer Firemen's Relief Association of The Borough of Darby, Pennsylvania, herein referred to as the Darby Borough 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 Darby Borough Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Darby Borough	Delaware	\$43,065	\$48,806	\$46,330

The volunteer firefighters’ relief association and the affiliated fire service organizations are separate, legal entities. The Darby Borough Volunteer Firefighters’ Relief Association is affiliated with the following fire service organizations:

Darby Fire Company No. 1

Darby Fire Patrol No. 2

DARBY BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR AUDIT FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Darby Borough Volunteer Firefighters' Relief Association has complied with three of the five prior audit findings and recommendations, as follows:

- Failure to Maintain a Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

- Inadequate Signatory Authority for the Disbursement of Funds

By requiring more than one signature on all negotiable instruments.

- Unauthorized Benefit Loan

By discontinuing the practice of issuing personal loans to members.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Darby Borough Volunteer Firefighters' Relief Association has not complied with two of the five prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Undocumented Expenditures

- Inadequate Minutes of Meetings

We are concerned by the relief association's failure to correct those previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

DARBY BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Expenditures

Condition: As cited in our prior audit report, the relief association again was unable to provide adequate supporting documentation for the following expenditures or obtain reimbursement for those expenditures made during the prior audit period.

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
06/15/09	1554	Board of Fire & Life Safety	\$ 125
07/16/09	1564	Board of Fire & Life Safety	520
04/05/10	1584	Individual	638
04/10/10	1585	Individual	338
Total			<u>\$ 1,621</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), 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.

Without adequate supporting documentation, such as an invoice, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures. While notified of this condition during our prior audit, relief association officials again neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

DARBY BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 that the relief association officials provide this department with adequate supporting documentation, such as invoices, to ensure the propriety of the expenditures or that the relief association be reimbursed \$1,621 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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

Condition: As cited in our prior audit report, the relief association 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. The relief association holds their meetings twice a year; however, expenditures are paid monthly. Therefore, some of these monthly expenditures are not approved for payment. If expenditures are to be paid monthly, relief association officials should consider holding meetings on a monthly basis in order to properly approve expenditures prior to payment. In addition, the relief association is not including the treasurers' report of all expenditures to be paid with the meeting minutes.

DARBY BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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: Even though 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 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.

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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 3 – Unauthorized Expenditures

Condition: As cited in a verbal observation in the prior audit period, the relief association expended funds for the first two of the following items that are not authorized by Act 118. Additionally, the relief association expended funds for the third item listed below during the current audit period.

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
*07/09/10	1594	Non-Member Training	\$ 100
*11/09/10	1610	Non-Member Training	100
08/14/14	1772	Non-Member Training	270
		Total	<u>\$ 470</u>

* During the current audit period, the relief association did not obtain reimbursement for the \$200 of unauthorized expenditures made in the prior audit period.

DARBY BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(10) states:

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

To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.

Costs associated with individuals not recognized on the membership roster of the relief association as bona fide members of the Darby Borough Volunteer Firefighters' Relief Association do not qualify for authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118. Even though notified of this condition during our prior audit in a verbal observation, relief association officials again neglected the fact that the expenditures for individuals not listed on the membership roster were not authorized by Act 118.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

Recommendation: We again recommend that the relief association be reimbursed \$470 for the unauthorized expenditures and that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of 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: Compliance is subject through verification during the next audit period.

DARBY BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2014

Cash Balance:	\$	72,470
Fair Value of Investment Balance:	\$	236,369
Expenditures:		
Benefit Services:		
Insurance premiums	\$	20,550
Relief benefits		10,609
Tokens of sympathy and goodwill		50
Total Benefit Services	\$	<u>31,209</u>
Fire Services:		
Equipment purchased	\$	123,744
Equipment maintenance		25,932
Training expense		7,286
Total Fire Services	\$	<u>156,962</u>
Administrative Services:		
Other administrative expenses	\$	5,456
Bond Premiums		834
Total Administrative Services	\$	<u>6,290</u>

DARBY BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Darby Borough Volunteer Firefighters' Relief Association Governing Body:

Mr. Jason O'Neill	President
Mr. Edward J. Nearey Sr.	Vice President
Mr. Robert T. Nauss III	Secretary
Mr. Edward J. Gannon III	Treasurer

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

Mr. Mark Possenti Darby Borough	Secretary
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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.