THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
OF THE BOROUGH OF DARBY, PENNSYLVANIA

HEREIN REFERRED TO AS:

DARBY BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2008

JACK WAGNER

AUDITOR GENERAL

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JACK WAGNER

AUDITOR GENERAL

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 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 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. The Darby Borough Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

Municipality	County	2007	2008
Darby Borough	Delaware	$46,005	$47,123

BACKGROUND (Continued)

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

Mr. Joseph J. Stalford, Jr., 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, 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, 2007 to December 31, 2008.

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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was 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 objective 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 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Darby Borough Volunteer Firefighters' Relief Association's recorded financial transactions, tests

of the physical existence of inventories, interviews of selected officials and direct confirmation of the Darby Borough Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. 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 objective.

The results of our audit for the period January 1, 2007 to December 31, 2008, found, in all significant respects, the Darby Borough Volunteer Firefighters' Relief Association received and expended 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. The results of our tests also indicated the Darby Borough Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of $154,444 and an investment balance with a fair value of $10,904.

Finding No. 1 – Insufficient Officer's Bond Coverage

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

Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds

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 30, 2009

JACK WAGNER
Auditor General

DARBY BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Insufficient Officer's Bond Coverage

Condition: The relief association did not maintain a bond in a sufficient amount to cover the authorized disbursing officer. The relief association's bond coverage was $100,000; however, as of December 31, 2008, the cash assets totaled $154,444.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that:

> . . . the disbursing officer, whether designated treasurer, comptroller, financial secretary, or otherwise, shall be bonded by corporate surety for the faithful performance of his duties. The amount of such bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on such bond shall be a proper charge against the funds of the association.

Cause: Relief association officials failed to monitor the cash balance to ensure the officer's bond coverage was sufficient, pursuant to the requirements in Act 84.

Effect: As a result of the disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend the relief association ensure that a faithful performance bond adequately covers the disbursing officer, as required by Act 84. This requirement may be accomplished by increasing the officer's bond coverage to an amount greater than the expected maximum balance of cash assets, or by decreasing the cash assets to an amount anticipated to remain below the coverage amount. Relief association officials should monitor the cash balance to ensure that unexpected events affecting current funds do not again result in an insufficient officer's bond coverage. 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.

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 we were provided separate rosters, compiled by the two affiliated fire companies, the rosters provided were not cumulative of all equipment owned by the relief association. Specifically, the rosters provided only contained equipment purchased in the current audit period. In addition, one of the rosters lacked dates of purchase and unit costs. Furthermore, there was no indication that the relief association performed an annual inventory of its equipment 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. Specifically, the relief association's cumulative equipment roster should be maintained by the relief association with all equipment purchases being recorded by the relief association, rather than relying on each affiliated fire company to maintain accurate records of equipment purchased by the relief association. A cumulative equipment 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; and
- Evidence of the results of an annual physical inventory.

Furthermore, sound business practice requires the performance of an annual physical inventory of all relief association owned equipment.

Cause: Relief association officials failed to establish adequate internal control procedures over fixed assets to require the maintenance of a cumulative equipment roster and the performance of an annual physical inventory. The relief association officials relied on the affiliated fire company to maintain 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 and perform an annual physical inventory prevents adequate accountability for, and safeguarding of, relief association fixed assets.

Finding No. 2 – (Continued)

Recommendation: We 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 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 presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds

Condition: During and subsequent to the current audit period, the signature of only one relief association officer was used to disburse funds from the relief association's checking account. Specifically, during the current audit period, we detected 3 checks with only one relief officer signature. Also, subsequent to the audit period, from February 2009 through August 2009, the signature of only one relief association officer appeared on 18 checks.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part:

> The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required in order to bind the association by formal contract or to issue any negotiable instrument.

In addition, Section 9b of the relief association bylaws states:

> Payment of expenditures shall require the signature of the Treasurer and one other officer.

Cause: Relief association officials were aware of the Act 84 provision, but failed to ensure each disbursement contained the signatures of at least two officers, one being the Treasurer.

Effect: As a result of the relief association not obtaining two signatures for all disbursements, assets were placed at greater risk of misappropriation.

Recommendation: We recommend the relief association officials adopt procedures which would require the signatures of at least two officers, one being the Treasurer, on all relief association negotiable instruments, as defined by Act 84. 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 presented and indicated they will take action to comply with the recommendation.

DARBY BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2008

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	$	17,772
Relief benefits		500
Tokens of sympathy and goodwill		53
Total Benefit Services	$	18,325
Fire Services:		
Equipment purchased	$	57,010
Equipment maintenance		7,596
Training expenses		5,020
Total Fire Services	$	69,626
Administrative Services:		
Miscellaneous administrative expenses	$	340
Total Administrative Services	$	340
Total Investments Purchased	$	150,000

JACK WAGNER

AUDITOR GENERAL

DARBY BOROUGH VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Darby Borough Volunteer Firefighters' Relief Association Governing Body:

Mr. Joseph J. Stalford, Jr., President

Mr. Gerald T. Pohlig, Vice President

Mr. Robert T. Nauss, III, Secretary

Mr. Edward J. Gannon, Jr., Treasurer

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

Mr. Mark Possenti, Secretary
Darby Borough

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.