

COMPLIANCE AUDIT

The Volunteer Firemen's Relief
Association of the Borough of Darby,
Pennsylvania
Delaware County
For the Period
January 1, 2019 to December 31, 2021

July 2022



Commonwealth of Pennsylvania
Department of the Auditor General
Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Jason O'Neill, President
The Volunteer Firemen's Relief Association
of the Borough of Darby, Pennsylvania
Delaware County

We have conducted a compliance audit of the Volunteer Firemen's Relief Association of the Borough of Darby, Pennsylvania (relief association) for the period January 1, 2019 to December 31, 2021. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the findings 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, 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 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 cash balance and a portion of the investment balance directly from the financial institution. Therefore, while the relief association provided bank and investment statements that indicated that, as of December 31, 2021, the relief association had a cash balance of \$137,345 and an investment balance with a fair value of \$168,815, we were not able to verify portions of those cash and investment balances.

Based on our audit procedures, we conclude that, for the period January 1, 2019, to December 31, 2021:

- The relief association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report.
- Because of the significance of the matter described in Finding No. 4 below and discussed later in this report and the effects, if any, of the matter described in the preceding paragraph, 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. Therefore, the relief association may be subject to the potential withholding of its upcoming state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Untimely Receipt And Deposit Of State Aid

Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 3 – Unauthorized Expenditure

Finding No. 4 – Unsecured Loan

We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

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
June 14, 2022

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code¹, and the Volunteer Firefighters' Relief Association Act² ("VFRA Act"), 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 Law³ (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.

The VFRA Act 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, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, 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.

¹ 72 P.S. § 403 (as last amended by Act 44 of 2017).

² 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

³ 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>202</u>	<u>2021</u>
Darby Borough	Delaware	\$39,045*	\$39,716	\$35,779

* The 2019 state aid allocation received from Darby Borough was not deposited by the relief association until March 9, 2020. In addition, the relief association received the 2019 state aid allocation from Darby Borough on March 9, 2020, as disclosed in Finding No. 1 in this report.

Based on the relief association’s records, its total cash and investments as of December 31, 2021 were \$387,415, as illustrated below:

Cash	\$ 137,435
Fair Value of Investments	168,815
Book Value of Other Investments	<u>81,165</u>
Total Cash and Investments	<u>\$ 387,415</u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2019 to December 31, 2021 were \$225,878, 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.⁴ **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	\$	27,396
Relief benefits		18,450
Total Benefit Services	\$	<u>45,846</u>

Fire Services:

Equipment purchased	\$	28,600
Equipment maintenance		7,145
Training expenses		10,184
Fire prevention materials		3,829
Total Fire Services	\$	<u>49,757</u>

Administrative Services:

Other administrative expenses*	\$	8,652
Bond premiums		767
Total Administrative Services	\$	<u>9,419</u>

Total Investments Purchased \$ 120,000

Unauthorized Expenditure \$ 855

Total Expenditures \$ 225,878

* The majority of the other administrative expenses include legal fees paid to dissolve their relationship with a previously affiliated fire company.

⁴ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

BACKGROUND – (Continued)

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:

Darby Fire Company No. 1

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

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with one of the two 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.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Untimely Receipt And Deposit Of State Aid

We are concerned by the relief association's failure to correct this previously reported audit finding. The relief association management should strive to implement the recommendation and corrective action noted in this audit report.

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

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Untimely Receipt And Deposit Of State Aid

Condition: The relief association did not deposit the 2019 state aid allocation it received from Darby Borough, in the amount of \$39,045, until March 9, 2020. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 16, 2019; however, municipal officials failed to forward the state aid allocation to the relief association until March 9, 2020, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Since there was no documentation indicating that the relief association attempted to retrieve the funds, the relief association did not ensure the funds were received and deposited timely.

A similar condition was noted in our prior audit report.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Cause: The relief association officials stated that this occurrence was due to a reorganization of the relief association, and a resulting lack of oversight.

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds increases the risk that funds could be lost or misappropriated.

Recommendation: We again recommend that the relief association officials adopt internal control procedures to ensure the timely receipt and deposit of all future 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.

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

Finding No. 1 – (Continued)

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 – Insufficient Surety (Fidelity) Bond Coverage

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$50,000; however, as of December 31, 2021, the relief association's cash assets totaled \$137,435.

Criteria: Section 7415(c)(4) of the VFRA Act states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the 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 the bond shall be a proper charge against the funds of the association.

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

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

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by the VFRA Act. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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 THE BOROUGH OF DARBY,
PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the relief association increased their bond coverage to \$125,000 on March 10, 2022.

Auditor's Conclusion: Compliance for sufficient bond coverage during the next audit period will be subject to verification through our next audit.

Finding No. 3 – Unauthorized Expenditure

Condition: The relief association expended \$856 for food and beverages for a non-qualifying meeting during the current audit period that is not authorized by the VFRA Act.

Criteria: Section 7416(f) of the VFRA Act states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

Costs associated with food and beverages at non-qualifying relief association meetings are not eligible as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under the VFRA Act.

Cause: Relief association officials indicated that they were unaware that the expenditure for the food and beverages at the meeting was not authorized by the VFRA Act.

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

Recommendation: We recommend that the relief association be reimbursed \$856 for the unauthorized expenditure and that relief association officials become familiar with Section 7416(f) of the VFRA Act 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.

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

Finding No. 3 – (Continued)

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, the affiliated fire company reimbursed the relief association \$856 for the unauthorized expenditure on May 18, 2022.

Auditor's Conclusion: We reviewed documentation verifying that the reimbursement of \$856 was received. Compliance for expenditures made during the next audit period will be subject to verification through our next audit.

Finding No. 4 – Unsecured Loan

Condition: On November 5, 2020, the relief association granted a loan to the affiliated fire company in the amount of \$100,000. While the loan agreement indicates that a 2002 Seagrave Quint vehicle was used as collateral, the relief association was unable to provide evidence that the relief association was in the first lien position for the asset. Therefore, the relief association did not ensure the loan was adequately secured by the relief association.

Criteria: Section 7416(c)(3) of the VFRA Act requires that loans be:

. . . (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

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

Effect: Failure to obtain adequate security for the loan places the investment at greater risk. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials ensure the relief association is registered in first lien position on the 2002 Seagrave Quint vehicle, which was used as collateral for the loan. If such action is not taken, we recommend that the loan be immediately liquidated. 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 THE BOROUGH OF DARBY,
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: 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.

THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH OF DARBY,
PENNSYLVANIA
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 4 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is 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.

THE VOLUNTEER FIREMEN’S RELIEF ASSOCIATION OF THE BOROUGH OF DARBY,
PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Charles J. McGarvey, Sr.
State Fire Commissioner

The Volunteer Firemen’s Relief Association of the Borough of Darby, Pennsylvania Governing
Body:

Mr. Jason O’Neill
President

Mr. Michael T. Melazzo
Vice President

Mr. James Childs, III
Secretary

Mr. Robert Nauss
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 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.