

COMPLIANCE AUDIT

East Lansdowne Volunteer Firefighters' Relief Association Delaware County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

October 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Thomas Pearlingi, President
East Lansdowne Volunteer Firefighters'
Relief Association
Delaware County

We have conducted a compliance audit of the East Lansdowne Volunteer Firefighters' Relief Association (relief association) for the period January 1, 2018 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.

Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2021:

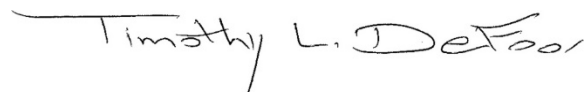
- The relief association took appropriate corrective action to address three of four findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action to address the one remaining finding contained in our prior audit report, as listed below, and discussed in the Status of Prior Findings section of this report.
- 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 findings listed below and discussed later in this report.

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

Finding No. 2 – Failure To Maintain Minutes Of Meetings

Finding No. 3 – Inadequate Internal Controls

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.



Timothy L. DeFoor
Auditor General
September 7, 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.

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

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
East Lansdowne Borough	Delaware	\$10,236	\$11,098	\$11,243*	\$10,045

* The 2020 state aid allocation received from East Lansdowne Borough was not deposited by the relief association until January 4, 2021, as disclosed in Finding No. 1 in this report.

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)

Based on the relief association's records, its total cash and investments as of December 31, 2021 were \$59,783, as illustrated below:

Cash	\$ 46,276
Fair Value of Investments	<u>13,507</u>
Total Cash and Investments	<u>\$ 59,783</u>

Based on the relief association's records, its total expenditures for the period January 1, 2018 to December 31, 2021 were \$36,697, 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	<u>\$ 10,677</u>
Fire Services:	
Equipment purchased	\$ 1,726
Equipment maintenance	6,470
Training expenses	<u>1,215</u>
Total Fire Services	<u>\$ 9,411</u>
Administrative Services:	
Bond premiums	\$ 1,460
Other administrative expenses	<u>969</u>
Total Administrative Services	<u>\$ 2,429</u>
Other Expenditures:	
Loan to Fire Company (See Finding No. 3)	\$ 14,000
Undocumented expenditure *	<u>180</u>
Total Other Expenditures	<u>\$ 14,180</u>
Total Expenditures	<u>\$ 36,697</u>

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

BACKGROUND – (Continued)

* The relief association was unable to provide adequate supporting documentation evidencing the propriety of a \$180 expenditure during calendar year 2018. We disclosed this issue to relief association officials during the conduct of our audit, but we did not include a finding in this report due to the relatively low dollar amount.

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:

East Lansdowne Fire Company #1

EAST LANSDOWNE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has complied with three of the four prior audit findings and recommendations, as follows:

- Inadequate Financial Record-Keeping System

By establishing and maintaining a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations.

- Failure To Maintain A Complete And Accurate Equipment Roster

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

- Failure To Maintain A Complete And Accurate Membership Roster

By maintaining a comprehensive listing of the relief association's membership.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Untimely Receipt 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.

EAST LANSDOWNE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
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 2020 state aid allocation it received from East Lansdowne Borough, in the amount of \$11,243, until January 4, 2021. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 22, 2020; however, municipal officials failed to forward the state aid allocation to the relief association until December 18, 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). In addition, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

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.

Furthermore, prudent business practice dictates that upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: Relief association officials stated the borough did not process the deposit until December 2020 and the state aid check was sent to a former fire department member who is no longer with the department, and the check had to be obtained from the former member for deposit.

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.

EAST LANSDOWNE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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: 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 – Failure To Maintain Minutes Of Meetings

Condition: The relief association did not maintain minutes of meetings as required by the VFRA Act and the relief association's bylaws.

Criteria: Section 7415(a) of the VFRA Act 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 II, Section I states, in part:

Regular meetings of this association should be held quarterly. Should the association have no pressing issues of business to be discussed the association shall hold at least one meeting per calendar year.

Cause: The relief association officials stated that a previous officer kept minutes, however they switched to electronic format after the last audit. According to relief association officials, at the time of the audit, they were unable to locate and produce the minutes due to technical and/or security issues with the user's account.

Effect: Without maintaining detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend that the relief association officials maintain a permanent accessible record of all relief association meetings as required by the VFRA Act and the relief association's bylaws. The minutes should include an adequate record 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.

EAST LANSDOWNE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
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 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. 3 – Inadequate Internal Controls

Condition: The relief association has failed to establish adequate internal controls. The following conditions noted during the current audit period are indicative of internal control weaknesses:

- Periodic physical inventories of equipment owned were not performed.
- An undocumented and unsecured short-term loan in the amount of \$14,000 was granted to the affiliate fire company. The undocumented loan was considered a short-term emergency loan to the affiliate fire company and was issued on January 15, 2019, and paid back to the relief association on February 14, 2019.
- Detailed minutes of meetings were not maintained.
- Board of Directors positions were not filled in accordance with the bylaw requirements.

Criteria: Section 7415(a) of the VFRA Act 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.

In addition, Section 7416(c) 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.

Also, under the VFRA Act, a minimum of three percent interest is required on the repayment of loans provided by the relief association.

The relief association's bylaws at Article III, Section 1 states, in part:

The Officers of this association shall consist of a president, vice-president, secretary, treasurer and three (3) board of directors. The officers shall be responsible for the management of association business upon direction received by the membership at association meetings.

EAST LANSDOWNE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, prudent business practice dictates that:

- Periodic physical inventories of equipment owned are performed.
- All loans be properly documented and secured.
- Detailed meeting minutes must be maintained to accurately document relief association business.
- Relief association officers be appointed in accordance with the bylaws.

Cause: The relief association officials stated that not a lot of equipment was purchased during the audit period and the completion of the physical inventories were lacking due to minimal additions of equipment. Relief officials further indicated that the loan to the affiliated fire company was an emergency action related to government shutdown and lack of funding for critical staffing and that the loan was discussed and voted on and approved. In addition, we were informed that the relief association chose not to obtain collateral and document the loan because they expected a quick reimbursement of the loan. Further, the minutes of meetings were not available to reflect that decision to obtain collateral and document the loan. The officials did not provide a reason why the Board of Directors positions were not filled.

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets and prevented the verification as to whether relief association business was presented before the membership for discussion and approval. Furthermore, the lack of effective internal controls places the relief association funds at greater risk for misappropriation.

Recommendation: We recommend that the relief association officials adopt internal control procedures which will require the following:

- Completion of periodic physical inspections of equipment owned.
- All loans are to be documented and secured.
- Maintenance of detailed meeting minutes.
- Relief association officer positions are filled in accordance with the bylaws.

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

EAST LANSDOWNE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
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 indicated they will comply with the recommendation. Relief association officials specifically indicated that new relief association officers have been put in place for the remainder of 2022 and going forward, and that the next meetings will focus on reorganization and taking steps to address findings and to put the proper controls and systems in place to correct the deficiencies.

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

EAST LANSDOWNE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
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

East Lansdowne Volunteer Firefighters' Relief Association Governing Body:

Mr. Thomas Pearlingi
President

Mr. Stephen Castellano
Vice President

Mr. James Carr, III
Secretary

Mr. James Carr, Jr.
Treasurer

Mr. Thomas Johnson
Director

Mr. Perry Bonner-Fennal
Director

EAST LANSDOWNE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

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

Ms. Glenice Thomas
Secretary
East Lansdowne 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.