

# COMPLIANCE AUDIT

---

## Newtown Square Volunteer Firemen's Relief Association, Inc. Delaware County, Pennsylvania 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

---



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

**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. Christopher Young, President  
Newtown Square Volunteer Firemen's  
Relief Association, Inc.  
Delaware County

We have conducted a compliance audit of the Newtown Square Volunteer Firemen's Relief Association, Inc. (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 the investment balance directly from the financial institution. Therefore, while the relief association provided investment statements that indicated that, as of December 31, 2021, the relief association had a cash balance of \$272,796 and an investment balance with a fair value of \$150,107, 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 Finding section of this report.
- Because of the significance of the matters described in Finding Nos. 2 and 3 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 – Failure To Maintain Minutes Of Meetings

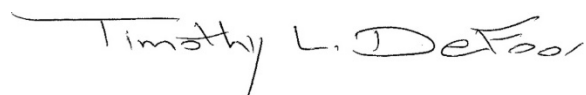
Finding No. 2 – Inadequate Documentation Of Mortgage

Finding No. 3 – Failure To Adhere To Terms Of Rental Agreement With Affiliated Fire Company And Excessive Rental Payments

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

Observation – FDIC Coverage Limits Exceeded

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 3, 2022

# CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings .....	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Minutes Of Meetings.....	6
Finding No. 2 – Inadequate Documentation Of Mortgage.....	7
Finding No. 3 – Failure To Adhere To Terms Of Rental Agreement With Affiliated Fire Company And Excessive Rental Payments.....	8
Observation:	
Observation – FDIC Coverage Limits Exceeded.....	12
Potential Withhold of State Aid.....	13
Report Distribution List.....	14

## BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code<sup>1</sup>, and the Volunteer Firefighters' Relief Association Act<sup>2</sup> ("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 Law<sup>3</sup> (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.

---

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

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

<sup>3</sup> 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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Willistown Township	Chester	\$ 8,190	\$ 8,173	\$ 7,353
Newtown Township	Delaware	\$144,759	\$146,995	\$128,869*

\* Although Newtown Township prepared and returned a Certification Form AG 385 for 2021, the township failed to submit a 2021 Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this department as required by the instructions accompanying Form 706-B and the instructions accompanying the 2021 state aid allocation received by the township disclosing this information.

**Newtown Township is still required to complete a 2021 Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B online within the Department of Community & Economic Development’s Municipal Statistics website (MunStats) immediately.**

Based on the relief association’s records, its total cash and investments as of December 31, 2021 were \$2,389,818, as illustrated below:

Cash	\$ 272,796
Fair Value of Investments	150,107
Book Value of Other Investments	<u>1,966,915</u>
Total Cash and Investments	<u><u>\$ 2,389,818</u></u>

**BACKGROUND – (Continued)**

Based on the relief association’s records, its total expenditures for the period January 1, 2019 to December 31, 2021 were \$2,605,442, 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.<sup>4</sup> **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	\$ 177,521
Relief benefits	10,143
Total Benefit Services	<u>\$ 187,664</u>

Fire Services:

Equipment purchased	\$ 207,576
Equipment maintenance	36,546
Training expenses	13,331
Total Fire Services	<u>\$ 257,453</u>

Administrative Services:

Other administrative expenses*	\$ 78,463
Bond premiums	1,862
Total Administrative Services	<u>\$ 80,325</u>

Total Investments Purchased	<u>\$ 2,080,000</u>
-----------------------------	---------------------

Total Expenditures	<u><u>\$ 2,605,442</u></u>
--------------------	----------------------------

\* A portion of other administrative expenses include \$66,250 in rent paid to the affiliated fire company (See Finding No. 2).

---

<sup>4</sup> 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:

Newtown Square Fire Company No. 1, Inc.



NEWTOWN SQUARE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.  
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:

- Undocumented Expenditure

By receiving reimbursement of \$500 from the affiliated fire company for the undocumented expenditure that was made in the prior audit period.

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:

- Failure To Maintain Minutes Of Meetings

NEWTOWN SQUARE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain Minutes Of Meetings**

Condition: The relief association failed to maintain detailed minutes of meetings as required by the VFRA Act. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period.

A similar condition was noted in our prior audit report.

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.

Cause: The relief association officials did not provide a reason for why this occurred despite the relief association being notified of this condition during our prior audit.

Effect: Without holding meetings and maintaining 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 hold required meetings and maintain a permanent record of all relief association meetings as required by the VFRA Act. 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.

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.

NEWTOWN SQUARE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Inadequate Documentation Of Mortgage**

Condition: On October 1, 2019, the relief association granted a mortgage loan to the affiliated fire company in the amount of \$1,890,000. However, we could not verify whether the mortgage was adequately secured due to a lack of supporting documentation. Specifically, there was no documentation showing the appraised value of the property as required by the VFRA Act.

Criteria: Section 7416(c)(1) of the VFRA Act states:

All, or any part of the funds of a volunteer firefighters' relief association may be invested:

In any form of investment named in 20 Pa.C.S. Ch. 73 (relating to municipalities investments). First mortgages insuring repayment of loans by relief associations shall provide for a minimum interest payment of 3% and not exceed 80% of the appraised value of real property covered by the mortgage.

Cause: Relief association officials indicated that they were unaware of the VFRA Act provisions concerning the security requirements for mortgages.

Effect: Since the relief association officials could not provide documentation of the appraised value of the property this mortgage is not considered to be secured as required by the VFRA Act. Failure to properly secure the mortgage 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 provide documentation of the appraised value of the property. If such documentation cannot be acquired, we recommend that the mortgage be immediately liquidated. 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. On June 29, 2022, relief association officials provided our auditors with an appraisal of the property showing the appraised value of the property to meet the requirements of the VFRA Act.

Auditor's Conclusion: On June 29, 2022, our auditors reviewed the supporting documentation and confirmed that the appraised value of the property meets the requirements of the VFRA Act. The relief association's compliance with future issued mortgages will be monitored through our next audit of the relief association.

NEWTOWN SQUARE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Failure To Adhere To Terms Of Rental Agreement With Affiliated Fire Company And Excessive Rental Payments**

Condition: During the current audit period, the relief association was party to two rental agreements with the affiliated fire company for use of office facilities and equipment. The total amount paid by the relief association to the affiliated fire company in rental fees for use of the fire company owned buildings was \$66,250, as detailed below:

	2019	2020	2021	Total
Rent for old station space	\$1,000	\$ 1,000	\$ 1,000	\$ 3,000
Rent for new station space	\$ 0*	\$ 32,890**	\$ 30,360	\$ 63,250
				\$ 66,250

\* The Relief Association didn't begin paying rent at the new station until 2020.

\*\* Includes 13 payments of rent in the year 2020.

The relief association expended approximately 23% of its total 2020 and 2021 state aid allocations for rental space at the affiliated fire company owned buildings.

The terms of the rental agreement for the old station states the **annual** rent shall be \$1,000. Three annual payments of \$1,000 were made during the audit period, in accordance with the agreement.

The terms of the rental agreement for the new station states the new **annual** rent shall be \$2,530. Based on the terms of the agreement the total amount due for calendar years 2020 and 2021 was \$5,060. However, the relief association made 13 payments in the amount of \$2,530 in calendar 2020 and 12 payments in calendar 2021, instead of the stipulated annual payments, which resulted in a \$58,190 overpayment ( $\$2,530 \times 25 \text{ months of payments} = \$63,250 - \$5,060$ ).

The relief association provided a breakdown of the \$2,530 rental calculation. The items and costs per item are as follows: hose tower building/space to hang fire hoses (\$362), PPE (personal protective equipment) storage room (\$258), SCBA (self-contained breathing apparatus) room (\$260), gear racks (\$953), cleaning room (\$434) and office space room (\$292). The payment of rent for the use of a room for hose tower, gear racks and cleaning appear to be excessive, unreasonable, and inconsistent with the intent of the VFRA Act.

NEWTOWN SQUARE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

We noted the amounts provided by the relief association and included in the previous paragraph did not agree to the total rent amount in the rental agreement. When renting storage space to house and maintain association owned equipment, prudent business practices require that all rented space be clearly and appropriately incorporated into the applicable contract. Failure to clearly and appropriately include rental spaces into a contract potentially causes abuse of fees dedicated to rental space and may result in fewer legal protections afforded to the association. Regardless, when considering the normal uses of rented space by a relief association under the VFRA Act, based on the square footage being rented and the relief association's established rate per square foot for comps provided to our auditors by the relief association, a reasonable estimation of the total monthly cost to the relief association should be approximately \$810 per month or \$9,720 annually. While \$9,720 does not agree with the contractual payment terms, which constitutes its own significant problem, it is far below the annual amount actually spent by the association for rental years 2020 and 2021 under the agreement. It is therefore concerning that the association grossly overpaid the contractual limits under the agreement without adequate justification, as well as the fact that it was not reflected in the agreement itself.

Criteria: Section 7416 of the VFRA Act states that funds may be used:

- (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...
- (21) Payment for facilities for storage of emergency vehicles and equipment, training and meetings.

In addition, the Office of State Fire Commissioners' *Volunteer Fire Relief Association (VFRA) Database*, ([osfc.sfa.pa.gov/fra/](http://osfc.sfa.pa.gov/fra/)), denotes the following:

<b><u>ITEM NAME</u></b>	<b><u>CATEGORY</u></b>	<b><u>AUTHORIZED EXPENDITURE</u></b>	<b><u>COMMENTS</u></b>
Storage of FRA equipment	General	Yes	Rental or purchase of storage space should be reasonable and necessary under the circumstances.
Addition to firehouse	General	No	However, the fire co. can rent out addition to relief.
Construction of a building for training	Training	No	<u>(none)</u>

NEWTOWN SQUARE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Although the VFRA Act includes provisions for the payment of normal and reasonable running expenses as may be appropriate to the business conduct of a relief association's affairs, the amount of rent payments paid to the fire company during the period do not follow the terms of the agreement established for the new station and do not appear to be reasonable. Prudent business practice also requires that such an agreement clearly specify the function and use of each room/rental space and the amount of square footage for each room/space, and that evaluation of the local going rate/comp is performed when considering the agreed upon rental payment amount.

As stipulated in the VFRA Act, the primary purpose of a volunteer firefighters' relief association is to afford financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. However, the payment amount of the rent expense appears to be **excessive, unreasonable, and inconsistent** when compared to the prior rent charged in the old agreement, the actual charge stipulated in the new rent agreement and with the intent of the VFRA Act, which was enacted to ensure that funds shall be available for the protection of volunteer firefighters' and their heirs.

Cause: Relief association did not follow the terms stated in the agreement. The relief association officials indicated that the rental agreement for the new station was incorrect and should have stated the payment of \$2,530 was due monthly. Furthermore, the relief association did not take adequate steps to document the payments made were reasonable and consistent with the intent of the VFRA Act.

Effect: Due to the relief association not adhering to the terms of the rental agreement and paying rental payments that were not authorized by the rental agreement, those expended funds were not authorized expenditures under the VFRA Act, are considered excessive, and were unavailable to the relief association for general operating expenses or for investment purposes. 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 re-evaluate the payment of rental fees made to the affiliated fire company by documenting the results of the evaluation and determining whether the amount of rental fees is appropriate and reasonable considering the intent of the VFRA Act and operating needs for the relief association. Additionally, we recommend the relief association be reimbursed \$58,190 for the unauthorized and excessive rental payments, and that the relief association officials become familiar with the VFRA Act to aid them in determining the propriety of future expenditures. We further recommend that relief association officials ensure future rental payments are paid in accordance with the documented established rental agreement approved by the relief association membership. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

NEWTOWN SQUARE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.  
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 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.

NEWTOWN SQUARE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.  
OBSERVATION

**Observation – FDIC Coverage Limits Exceeded**

As disclosed in a verbal observation in the two previous audits, the relief association failed to ensure that all cash deposits were below the FDIC coverage limits per account ownership in one institution. As of December 31, 2021, the relief association's ending cash balance with the financial institution amounted to \$267,797.

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United States 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.

Section 7413 of the VFRA Act 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 reasonably 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.



NEWTOWN SQUARE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.  
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 2 and 3 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are 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.

NEWTOWN SQUARE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.  
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

Newtown Square Volunteer Firemen's Relief Association, Inc. Governing Body:

**Mr. Christopher Young**  
President

**Mr. Douglas Conway**  
Vice President

**Mrs. Jean Bail**  
Recording Secretary

**Mr. Jason Everof**  
Financial Secretary

**Mr. Joseph K. Brennan**  
Treasurer

**Mr. Andrew Rose**  
Trustee

**Mr. Harry Robinson**  
Trustee

**Mr. Zach Conan**  
Trustee

**Mr. George Guyer**  
Trustee

NEWTOWN SQUARE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION, INC.  
REPORT DISTRIBUTION LIST

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report:

**Ms. Sally Slook**  
Secretary  
Willistown Township

**Mr. Stephen M. Nease**  
Secretary  
Newtown Township

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).