

COMPLIANCE AUDIT

Radnor Fire Company Relief Association Delaware County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

December 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. James Kelly, President
Radnor Fire Company
Relief Association
Delaware County

We have conducted a compliance audit of the Radnor Fire Company Relief Association (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, 2016 to December 31, 2017.

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 reports.
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 required to be and was not 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 independent confirmation of a portion of the investment balance directly from the financial institutions. Therefore, while the relief association provided investment statements that indicated that, as of December 31, 2017, the relief association had an investment balance of \$7,484,353, we were not able to verify a portion of this investment balance.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2016 to December 31, 2017:

- The relief association took appropriate corrective action to address two of the three 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 finding listed below and discussed later in this report.

Finding – Noncompliance With Prior Audit Recommendation – Failure To Define Discretionary Benefits

We have also issued the observations below as detailed in the Observations section of this report.


Observation No. 1 – Consideration Required For Back-up Radio Tower Purchases

Observation No. 2 – FDIC Coverage Limits Exceeded

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with the management of the relief association and, where appropriate, their response has 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.

November 15, 2018


EUGENE A. DEPASQUALE
Auditor General

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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 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 volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct 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 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.

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2016</u>	<u>2017</u>
Radnor Township	Delaware	\$352,921	\$317,067

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:

Radnor Fire Company of Wayne

RADNOR FIRE COMPANY RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure To Monitor Investment Activity

By monitoring all investment activity.

- Insufficient Surety (Fidelity) Bond Coverage

By increasing the Surety (Fidelity) bond coverage to an amount greater than the balance of the relief association's cash assets.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Define Discretionary Benefits

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

RADNOR FIRE COMPANY RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Failure To Define Discretionary Benefits

Condition: The relief association did not formally define and approve discretionary benefits that were being offered to its members. During the current audit period, the relief association paid \$421,198 in insurance premiums such as life and liability which, in part, supports payments of \$13,596 of relief association benefits that were paid on behalf of its members. Although these expenditures are authorized by Act 118, the types, amounts, and criteria to be met before receiving the benefits were not described in a formal policy approved by the relief association membership.

A similar condition was noted in our two prior audit reports.

Criteria: Section 7413 of Act 118 states, funds shall be available:

- (3) For payment, either by insurance or by operation of a beneficial fund, of a sum certain to designated beneficiaries of a participating member following the death of a member for any cause and **to establish criteria which members must meet in order to qualify** as participants in a death benefit fund. (Emphasis added.)
- (5) Financial assistance to volunteer firefighters who, after having actively participated in the fire service **for a specified minimum term**, are no longer physically able to continue participation and are in need of financial assistance. (Emphasis added.)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, disability benefits, officer compensation, or any other type of discretionary benefit provided by Act 118, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal relief association policy, and/or in the official meeting minutes. The relief association needs to formalize a policy and specific criteria that determines which members are eligible for the benefits being offered to members and the classifications that members need to meet to become eligible for benefits. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well as the criteria to be met in order to receive the benefits.

Cause: Even though notified of this condition during our prior audit, relief association officials indicated that they were not aware of the specific stipulations of Act 118 and did not perceive the formal approval to be an essential internal control in safeguarding relief association assets. As a result, relief association officials again failed to establish procedures to formally define the benefits and related criteria for the benefits offered to members.

RADNOR FIRE COMPANY RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The relief association's continued failure to formally define discretionary benefits prevents the membership from being fully aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the relief association.

Recommendation: We again recommend that the relief association officials formally define and document the criteria of the discretionary benefits being offered to its membership. The formal approval of benefits and related criteria should be documented in the bylaws, a policy statement, and/or in the official meeting minutes, and should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the criteria to be met before receiving the benefit. Furthermore, all approved discretionary benefits should be in accordance with provisions of Act 118. 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. Compliance will be subject to verification through our next audit. The continued failure to comply with the finding recommendation may result in a future withholding of state aid.

RADNOR FIRE COMPANY RELIEF ASSOCIATION OBSERVATIONS

Observation No. 1 – Considerations Required For Back-up Radio Tower Purchases

A review of the relief association's meeting minutes showed the purchase of a back-up radio tower was approved by relief association membership for the purpose of providing an adequate radio transmission signal to reach fire service communication devices assigned to its members when the municipal provided radio tower fails. Radio signals are a necessary component of fire service to ensure fire safety in local communities. In most cases, municipal governments fund/provide this communication capacity.

As it relates to Act 118 of 2010, the Act indicates, in part, that fire service is the service of organized groups of individuals not only in training for and in active duty in the protection of the public against fire, but may include radio communications and that the Act is to encourage individuals to take part in the fire service as volunteer firefighters.

Our audit found evidence supporting that the above referenced back-up radio tower purchase appears to meet conditions which would warrant such a purchase. The purchase of a back-up radio tower however is non-routine, generally costly, and traditionally has been an apparatus provided by the municipality and/or the relief association's affiliated fire company. As such it is recommended that the relief association consult with the Department of Community and Economic Development Center for Local Government Services (DCED) prior to engaging in such purchases. In addition, in the event there are sufficient circumstances warranting the purchase of such an apparatus with relief association state aid funds, it is recommended that such purchases be made through a joint purchase agreement between the governing municipality, affiliated fire company/fire department, and the relief association whereby all parties contribute financially. Finally, tower use must be limited exclusively to fire service. Any other uses of this equipment are prohibited and/or unauthorized. Additional information regarding such purchases can be found on the Department of Community and Economic Development website at <http://www.dced.state.pa.us/local-government-services/>.

RADNOR FIRE COMPANY RELIEF ASSOCIATION OBSERVATIONS

Observation No. 2 – FDIC Coverage Limits Exceeded

As disclosed in a verbal observation in the previous audit, the relief association again failed to ensure that all cash deposits were below the FDIC coverage limits per account ownership in one institution. As of December 31, 2017, the relief association's ending cash and investment balances with the financial institution amounted to \$300,807.

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 Act 118 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 reasonable 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.

RADNOR FIRE COMPANY RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2017

Cash	\$ 545,856
Fair Value of Investments	<u>7,484,353</u>
Total Cash and Investments	<u>\$ 8,030,209</u>

RADNOR FIRE COMPANY RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:

Insurance premiums	\$ 421,198
Relief benefits	13,596
Total Benefit Services	<u>\$ 434,794</u>

Fire Services:

Equipment purchased	\$ 442,097
Equipment maintenance	92,880
Training expenses	26,354
Total Fire Services	<u>\$ 561,331</u>

Administrative Services:

Officer compensation	\$ 6,740
Other administrative expenses	11,992
Bond premiums	3,282
Total Administrative Services	<u>\$ 22,014</u>

Total Investments Purchased	<u>\$ 280,000</u>
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Total Expenditures	<u><u>\$ 1,298,139</u></u>
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RADNOR FIRE COMPANY RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Radnor Fire Company Relief Association Governing Body:

Mr. James Kelly
President

Mrs. Joni Berner
Vice President

Mrs. Cheryl Flail
Secretary

Mr. Robert Klinger
Treasurer

Mr. Joseph Maguire
Director

Mr. Paul Leighton
Director

Mr. Ryan Maguire
Director

Mr. Michael Maguire
Director

Mr. Americo Taddeo
Director

RADNOR FIRE COMPANY 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:

Mr. Robert Zienkowski
Secretary
Radnor Township

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.