

COMPLIANCE AUDIT

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

June 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. James Peterson, President
Volunteer Firemen's Relief Association
of Upper Darby Township
Delaware County

We have conducted a compliance audit of the Volunteer Firemen's Relief Association of Upper Darby Township (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 independent confirmations of a portion of the cash balance directly from the financial institutions. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2021, the relief association had a cash balance of \$633,867, we were not able to verify a portion this cash balance.

We were also not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by the VFRA Act.

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 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.
- Because of the significance of the matter described in Finding No. 1 below and discussed later in this report and the effects, if any, of the matters described in the two preceding paragraphs, 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.

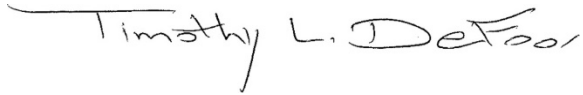
Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Finding No. 2 – Undocumented Expenditures

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
April 26, 2023

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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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Millbourne Borough	Delaware	\$ 4,501	\$ 4,649	\$ 4,042
Upper Darby Township	Delaware	\$192,406	\$194,949	\$171,678

Based on the relief association's records, its total cash and investments as of December 31, 2021, were \$3,577,509, as illustrated below:

Cash	\$ 633,867
Fair Value of Investments	2,323,126
Book Value of Other Investments	<u>620,516</u>
Total Cash and Investments	<u><u>\$ 3,577,509</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 \$1,498,013, 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	\$ 68,025
Death benefits	495,000
Relief benefits	706
Total Benefit Services	<u>\$ 563,731</u>

Fire Services:

Equipment purchased	\$ 307,256
Equipment maintenance	98,850
Training expenses	36,749
Fire prevention materials	915
Total Fire Services	<u>\$ 443,770</u>

Administrative Services:

Bond premiums	\$ 753
Officer compensation & payroll taxes	133,836
Other administrative expenses *	84,293
Total Administrative Services	<u>\$ 218,882</u>

Total Investments Purchased	<u>\$ 258,000</u>
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Other Expenditures:

Unauthorized expenditures	\$ 12,423
Undocumented expenditures	1,207
Total Other Expenditures	<u>\$ 13,630</u>

Total Expenditures	<u><u>\$ 1,498,013</u></u>
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* A majority of the other administrative expenses include \$3,000 for accounting services, \$5,435 for paging services for volunteers, \$26,610 for data plans and officer cellphones and \$34,961 in legal fees.

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 organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Cardington Stonehurst Fire Company

Garrettford - Drexel Hill Fire Company

Highland Park Fire Company

Primos-Secane Fire Company

Upper Darby Fire Company

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
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 Define Discretionary Benefits

By amending the relief association's bylaws to reflect the amount of discretionary benefits to be paid.

- Failure To Secure Ownership Interest In Jointly Purchased Equipment

By executing a written formal agreement with the affiliated fire company that adequately secures its proportional ownership interest in the jointly purchased equipment.

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 Findings and Recommendations section of this report:

- Unauthorized Expenditure

Although the relief association received reimbursement of \$2,000 from the affiliated fire companies for the unauthorized expenditure that was made in the prior audit period, the relief association again expended funds in the current audit period that were not authorized by the VFRA Act as further disclosed in Finding No. 1 of this report.

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.

VOLUNTEER FIREMEN’S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Expenditures

Condition: Although the relief association received reimbursement from the affiliated fire companies for the unauthorized expenditure that was made in the prior audit period, the relief association expended funds for the following items during the current audit period that are not authorized by the VFRA Act:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
04/24/19	971	Maintenance of auto scrubber – non-relief owned	\$ 2,079
05/17/20	1191	Maintenance of auto scrubber – non-relief owned	654
03/02/21	1353	Purchase of athletic wear	<u>9,690</u>
Total			<u>\$ 12,423</u>

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.

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service, including necessary training.

In addition, the Office of the State Fire Commissioner’s online VFRA Database, states:

Equipment	Two-piece utility uniforms	Yes	<u>Pants and shirts must have identification on them</u> indicating a bona-fide emergency response agency. <u>The pants and shirts must be standard issue and must be worn as similarly required coveralls.</u> "Station uniforms" - printed t-shirts - remain unauthorized expenses. (Emphasis - Added)
Equipment	Uniforms for Fire Police, Station Uniform Jackets	No	

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, Section 7418(b) of the VFRA Act states:

- (b) Findings -- If the Auditor General finds that money received by a volunteer firefighters' relief association has been expended for a purpose other than one authorized by this subchapter, the commissioner, upon receiving notice of the finding from the auditor general, shall decline to approve payment to the volunteer firefighters' relief association until the improperly expended amount has been reimbursed to the relief association fund.

Costs associated with the maintenance on non-relief association owned equipment and the purchase of athletic wear clothing do not qualify as authorized volunteer firefighters' relief association expenditures; consequently, these disbursements are not authorized under the VFRA Act.

Cause: The relief association officials indicated that the clothing purchased was not for leisure but was instead the fire company's official work uniforms. The relief association officials did not provide a reason why maintenance on non-relief owned equipment was provided.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by the VFRA Act. 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 be reimbursed \$12,423 for the unauthorized expenditures 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.

Management's Response: Relief association management did not agree with the finding as presented at the audit exit conference and stated,

"These are Co. #1's official work uniforms in station 24/7. They are not mandated to comply with Township official workstation uniforms. Therefore, they have own choice of official work uniform. These are not for leisure use. The relief association official requests the auditor to go back to the state to review again and approve the expenditure for work uniforms."

VOLUNTEER FIREMEN’S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Auditor’s Conclusion: Based on the criteria cited above, the finding remains as stated and we continue to recommend that the relief association be reimbursed \$12,438 for the unauthorized expenditures. 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.

Finding No. 2 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Payee Description</u>	<u>Amount</u>
06/09/19	1005	Affiliated fire company	\$ 3,817
12/08/19	1097	Affiliated fire company	915
07/04/21	1387	Relief association officer	1,207
Total			<u>\$ 5,939</u>

Criteria: Section 7418(a) of the VFRA Act states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters’ relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

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

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of the VFRA Act. In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$5,939 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all future expenditures. 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, as a result of our audit, the relief association provided this department with adequate supporting documentation to ensure the propriety of \$4,732 of expenditures on April 28, 2023.

Auditor's Conclusion: We reviewed the supporting documentation verifying the propriety of \$4,732 of expenditures. We continue to recommend that the relief association officials provide this department with adequate supporting documentation to ensure the propriety of the remaining expenditures or that the relief association be reimbursed \$1,207 for the remaining undocumented expenditures. Full compliance for maintaining appropriate documentation for the remaining expenditures and any expenditures made during the next audit period will be subject to verification through our next audit.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
OBSERVATION

Observation – FDIC Coverage Limits Exceeded

As disclosed in a verbal observation in the four previous audits, 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, 2021, the relief association's ending cash balances with the financial institution amounted to \$395,171.

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

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by Finding No. 1 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 316E Finance Building, Harrisburg, PA 17120.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Volunteer Firemen's Relief Association of Upper Darby Township Governing Body:

Mr. James Peterson
President

Mr. Andrew Phillips
Vice President

Mr. Kenneth Bullwinkle
Secretary/Financial Secretary

Mr. Matthew Bruce
Treasurer

Mr. David Stevenson, Sr.
Auditor

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

Ms. Nancy Baulis
Secretary
Millbourne Borough

Ms. Alexis Cicchitti
Secretary
Upper Darby Township

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP
REPORT DISTRIBUTION LIST

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