



**RADNOR FIRE COMPANY RELIEF
ASSOCIATION**

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010 TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. David Roderick, President
RADNOR VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Radnor Volunteer Firefighters' 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, 2010 to December 31, 2012.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Radnor Volunteer Firefighters' 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. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Radnor Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Radnor Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2012, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives.

The results of our audit, for the period January 1, 2010 to December 31, 2012, found the Radnor Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the three findings contained in our prior audit report. However, the results of our audit found the Radnor Volunteer Firefighters' Relief Association, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report.

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings
- Finding No. 3 – Failure To Define Discretionary Benefits

The results of our tests also indicated the Radnor Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$563,271 and an investment balance with a fair value of \$4,643,418.

Furthermore, a scope limitation on our audit exists, as detailed in the Observation section of this report.

The contents of this report were discussed with the management of the Radnor Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report. We would like to thank the relief officials for the cooperation extended to us during the conduct of the audit.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

EUGENE A. DEPASQUALE
Auditor General

May 22, 2014

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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 Radnor Fire Company Relief Association, herein referred to as the Radnor Volunteer Firefighters' 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 the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts 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 the volunteer firefighters' relief association 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, which is or are recognized as providing the service to the municipality.

BACKGROUND – (Continued)

The Radnor Volunteer Firefighters’ Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Radnor Township	Delaware	\$ 382,279	\$ 609,828	\$ 344,612

The volunteer firefighters’ relief association and the affiliated fire service organization are separate, legal entities. The Radnor Volunteer Firefighters’ Relief Association is affiliated with the following fire service organization:

Radnor Fire Company

RADNOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Radnor Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Inadequate Relief Association Bylaws

By revising the relief association bylaws to meet the minimum requirements of Act 118.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Radnor Volunteer Firefighters' Relief Association has not complied with two of the three prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure To Maintain A Complete And Accurate Equipment Roster
- Inadequate Minutes Of Meetings

We are concerned with the volunteer firefighters' relief association's failure to correct the previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

RADNOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Maintain
A Complete And Accurate Equipment Roster**

Condition: As cited in our two prior audit reports, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While several rosters of relief association owned equipment were provided, the rosters were in various formats and did not always include the dates of purchase, unit costs, names of suppliers, and serial numbers. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all of the relief association's equipment purchases.

Criteria: Sound business practices dictate the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment purchases. A cumulative equipment roster of all relief association equipment should include the following:

- Types of equipment purchased;
- Dates of purchase;
- Unit costs;
- Names of suppliers;
- Serial numbers, if applicable;
- Current locations of items;
- Final dispositions of sold or damaged equipment; and
- Evidence of the performance and results of an annual physical inventory
-

Cause: While notified of this condition during our prior audit, relief association officials neglected to establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment purchases prevents adequate accountability for, and safeguarding of, relief association fixed assets.

RADNOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. 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 without exception. On October 16, 2013, current relief association management provided an equipment roster in an effort to comply with our recommendation as presented at the audit exit conference. However, the equipment roster did not include all of the equipment purchased during the audit period.

Auditor's Conclusion: Full compliance will be evaluated during our next audit.

RADNOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Minutes Of Meetings

Condition: As cited in our prior audit report, the relief association failed to maintain detailed minutes of meetings as required by Act 118. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period. While equipment purchases and maintenance were addressed, other expenditures such as training, insurance, officer's compensation, rent and relief association benefits were not routinely documented in the meeting minutes. In addition, the meeting minutes did not include discussions on income received or investment transactions. In addition, five of the twelve quarterly meetings and all of the annual meetings did not meet the relief association's bylaw requirements for eleven members to be present to constitute a quorum.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) 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: While notified of this condition during our prior audit, relief association officials neglected to maintain detailed minutes of meetings as required by Act 118.

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

Recommendation: We again recommend the relief association maintain detailed minutes of meetings, evidencing the discussion and approval 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: Compliance will be evaluated during our next audit.

RADNOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Define Discretionary Benefits

Condition: During the current audit, we found the relief association failed to address a verbal observation issued during our two prior audits concerning discretionary benefits. During the current audit period, the relief association paid \$56,174 in discretionary benefits. However, the relief association did not formally define and approve discretionary benefits that were being offered and paid to its members. Although these expenditures were 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. In addition, our testing disclosed the existence of administrative practices relative to routine physical examinations/tests available to members at the discretion of a member's doctor provided the member submits a pre-authorization form to the relief association secretary one week prior to receiving such services and provided the bills for these covered services are sent directly to the relief association. The failure to obtain such pre-approval could result in non-payment of these member benefits. However, these administrative procedures were also not documented in the relief association's bylaws.

Criteria: Act 118 at 35 Pa.C.S. § 7413 (3) and (5) 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, or in the official meeting minutes. 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.

RADNOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Continued

Cause: While notified of this condition during our prior audit, via a Verbal Observation, relief association officials did not perceive the formal approval to be an essential internal control in safeguarding relief association assets. As a result, they failed to establish procedures to formally define the benefits and related criteria for the benefits offered to members.

Effect: The relief association's failure to formally define discretionary benefits prevents the membership from being 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 recommend 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, 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: Compliance will be evaluated during our next audit.

RADNOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Scope Limitation

A portion of the Radnor Volunteer Firefighters' Relief Association's (VFRA) cash balance amounting to \$50,552 of the total cash balance reported at \$563,271, as of December 31, 2012, could not be confirmed. While we received confirmation of \$512,719 of the total cash account balance, the remaining balance of \$50,552 was not confirmed by the other financial institution. In addition, \$73,052 of the VFRA's investment balance reported at \$4,464,418, as of December 31, 2012, could not be confirmed. Two separate requests for an independent confirmation of these account balances were made on July 22, 2013 and August 7, 2013, to the financial institutions from which the VFRA maintained the cash account and investments. While the VFRA provided a December 31, 2012, financial institution account statements, the financial institutions failed to provide an independent confirmation of the respective balances.

Act 118 at 35 Pa.C.S. § 7418(a) states, in part, that 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 . . . 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.

Generally Accepted Government Auditing Standards (GAGAS) Section No. 6.56 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 6.61(f) states, "Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity."

Statement of Auditing Standards (SAS) No. 106 requires auditors to request independent confirmations of investment balances directly from the financial institution from which the VFRA purchased the investment.

Even though we made two requests, confirmation of these balances were not provided by the respective financial institutions.

Our inability to confirm the VFRA's total cash and investment balances constitutes a scope limitation on our audit.

RADNOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2010 TO DECEMBER 31, 2012

Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 304,819
Death benefits	90,000
Relief benefits	56,174
Total Benefit Services	<u>\$ 450,993</u>
Fire Services:	
Equipment purchased	\$ 297,626
Equipment maintenance	118,617
Training expenses	29,937
Total Fire Services	<u>\$ 446,180</u>
Administrative Services:	
Officer compensation & Payroll taxes	\$ 17,431
Rental Expenses	18,500
Other administrative expenses	11,796
Total Administrative Services	<u>\$ 47,727</u>
Total Investments Purchased	<u>\$ 500,000</u>

RADNOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Radnor Volunteer Firefighters' Relief Association Governing Body:

Mr. David Roderick	President
Mr. Joseph Connolly	Vice President
Mr. Francis Pettit	Secretary
Mr. Robert Klinger	Treasurer
Mr. Michael Maguire	Director
Mr. Douglas Felske	Director
Mr. Stephen Nick	Director
Mr. Joseph Maguire	Director
Mr. Americo Taddeo	Director

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

Mr. Robert A. Zienkowski Secretary
Radnor Township

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.