



VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF UPPER DARBY TOWNSHIP

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 TO DECEMBER 31, 2008



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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 Volunteer Firemen's Relief Association of Upper Darby Township, herein referred to as Upper Darby Township 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. The Upper Darby Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Upper Darby Township	Delaware	\$308,242	\$313,477	\$320,379

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organizations are separate, legal entities. The Upper Darby Township Volunteer Firefighters' 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

Mr. James Hoban, President
UPPER DARBY TOWNSHIP VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Upper Darby Township 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, 2006 to December 31, 2008.

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 Upper Darby Township 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 Upper Darby Township Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Upper Darby Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, 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, 2006 to December 31, 2008, found the Upper Darby Township Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the three findings contained in our prior audit report. However, the Upper Darby Township Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Upper Darby Township Volunteer Firefighters' Relief Association did not, in all significant respects, receive and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Upper Darby Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2008, had a cash balance of \$938,240 and an investment balance with a fair value of \$3,059,932.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Failure to Secure Ownership in a Jointly Purchased Vehicle

The contents of this report were discussed with the management of the Upper Darby Township Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

December 23, 2009, except for
Finding No. 2 for which the
date is September 15, 2011

JACK WAGNER
Auditor General

UPPER DARBY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Upper Darby Township Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Internal Control Deficiencies in Administration of Mortgages

By adopting internal controls related to the administration of mortgages.

- Failure to Maintain Officers' Bond Coverage

By obtaining an officers' bond coverage in an amount greater than the balance of cash assets.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Upper Darby Township Volunteer Firefighters' Relief Association, again, 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:

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

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

UPPER DARBY TOWNSHIP 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 the relief association did provide copies of equipment rosters that had been prepared by each of the five (5) affiliated fire companies (Cardington-Stonehurst, Garrettford-Drexel Hill, Highland Park, Primos-Secane, and Upper Darby), the five rosters were in a format that made it impossible to determine if all items purchased during the audit period had been accurately recorded. Specifically, the lists of equipment that were provided did not contain all of the dates of purchase, unit costs, names of suppliers, serial numbers, and final dispositions of sold or damaged equipment. While it is not necessary for each of the fire companies to maintain separate records, it is the relief association's responsibility to have sufficient records to be able to determine that all equipment purchased has been recorded and accounted for. Equipment purchased during the audit period totaled \$732,742. Equipment purchased since the relief association was first cited with this finding, January 1, 1999 through the current audit period ending December 31, 2008, totaled 1,962,158. In addition, there was no indication that an annual physical inventory of equipment was performed to account for the relief association's fixed assets.

Criteria: Sound business practice dictates 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 fixed assets. 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 two prior audits, relief association officials, again, failed to establish adequate internal control procedures over fixed assets requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

UPPER DARBY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 fixed assets prevents adequate accountability for, and safeguarding of, relief association fixed assets.

However, subsequent to our fieldwork completion date, the relief association provided additional documentation, including updated equipment rosters. The updated equipment rosters will be evaluated for completeness and accuracy during our next regularly scheduled audit.

Recommendation: We again recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. The roster should include all the required elements as noted in the above criteria. Furthermore, the relief association should ensure it performs an annual physical inventory of 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 as presented at the audit exit conference.

UPPER DARBY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Secure Ownership Interest in Jointly Purchased Vehicle

Condition: During the current audit period, we found that the relief association failed to address a verbal observation concerning joint ownership of a vehicle. During the audit for the period January 1, 1999 to December 31, 2002, we found that on December 20, 2001, the relief association expended \$50,000 towards the purchase of a vehicle, at a cost of \$102,000, purchased jointly with Cardington-Stonehurst Fire Company. A verbal observation recommending that the relief association obtain a written joint ownership agreement was issued during our prior two audits. However, during the current audit period, the relief association, again, failed to obtain a written agreement with the fire company for a proportional share of the proceeds if the vehicle was ever sold. The relief association's proportional ownership interest is 49 percent. As a result of the relief association's failure to comply with the two prior audit periods' verbal observation, this issue was elevated to a written finding.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) 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), [FN1] 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 the relief association should secure its proportional ownership interest in the jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold.

Cause: Even though cited verbally for its failure to adhere to our recommendation during the past two audits, the relief association still failed to secure its proportional ownership interest in the jointly purchased vehicle by written agreement.

Effect: Continued failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicle places the relief association's ownership interest at greater risk.

However, subsequent to our fieldwork completion date, the relief association provided a copy of a joint ownership agreement. The agreement, and any additional documentation provided, will be evaluated during our next regularly scheduled audit.

UPPER DARBY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend the relief association immediately execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased vehicle, as well as stipulating the proportionate sales proceeds that should revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$50,000. 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 and indicated they will take action to comply with the recommendation.

UPPER DARBY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

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	\$ 69,159
Death benefits	286,500
Relief benefits	200
Tokens of sympathy and goodwill	2,750
Total Benefit Services	\$ 358,609
Fire Services:	
Equipment purchased	\$ 732,742
Equipment maintenance	60,253
Training expenses	11,235
Fire prevention materials	3,644
Total Fire Services	\$ 807,874
Administrative Services:	
Officer compensation	\$ 51,450
Payroll taxes	27,168
Other administrative expenses	30,375
Total Administrative Services	\$ 108,993
Total Investments Purchased	\$ 965,000

UPPER DARBY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Upper Darby Township Volunteer Firefighters' Relief Association Governing Body:

Mr. James Hoban, President

Mr. Vince McFadden, Sr., Financial Secretary

Mr. Hubert Gantz, Recording Secretary

Mr. Charles Kelly, Treasurer

Mr. David Stevenson, Sr., VFRA Auditor

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

Mr. Richard G. Nolan, Chief Clerk
Upper Darby Township

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.