

**LOWER MERION TOWNSHIP FIREMEN'S RELIEF ASSOCIATION  
ARDMORE, PENNSYLVANIA**

**MONTGOMERY COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008 TO DECEMBER 31, 2010**

**Released March 2013**





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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 Lower Merion Township Firemen's Relief Association Ardmore, Pennsylvania, herein referred to as Lower Merion 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 Lower Merion Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Lower Merion Township	Montgomery	\$887,755	\$792,711	\$892,243

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organizations are separate, legal entities. The Lower Merion Volunteer Firefighters' Relief Association is affiliated with the following fire service organizations:

Belmont Hills Fire Company  
Bryn Mawr Fire Company  
Gladwyne Fire Company  
Merion Fire Company of Ardmore  
Penn Wynne-Overbrook Hills Fire Company  
Union Fire Association of Lower Merion





**Commonwealth of Pennsylvania  
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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Mr. Richard A. Cuff, President  
LOWER MERION VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Montgomery County

We have conducted a compliance audit of the Lower Merion 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, 2008 to December 31, 2010.

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 Lower Merion 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 Lower Merion Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Lower Merion Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2010, 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, 2008 to December 31, 2010, found the Lower Merion Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the four findings contained in our prior audit report. However, the Lower Merion Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining two findings 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 Lower Merion Volunteer Firefighters' Relief Association, in all significant respects, received 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. The results of our tests also indicated the Lower Merion Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$256,000 and an investment balance with a fair value of \$8,027,059.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Inadequate Relief Association Bylaws

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Segregate Relief Association Officer's Duties

We also noted another matter that has been included in the following observation and detailed in the Observation section of this report.

Observation – Diversification of Investments

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

August 10, 2011

EUGENE A. DEPASQUALE  
Auditor General



LOWER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Lower Merion Volunteer Firefighters' Relief Association has complied with two of the four prior audit findings and recommendations:

- Undocumented Expenditures

By providing adequate documentation to determine the validity of the undocumented expenditures that were made during the prior audit period. In addition, we did not detect any additional undocumented expenditures during the current audit period.

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative inventory roster of equipment owned.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Noncompliance With Prior Audit Recommendation –  
Inadequate Relief Association Bylaws
- Noncompliance With Prior Audit Recommendation –  
Failure to Segregate Relief Association Officer's Duties

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.

LOWER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Inadequate Relief Association Bylaws

Condition: As cited in our prior audit report, the existing bylaws of the Lower Merion Volunteer Firefighters' Relief Association, again, do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not properly address the requirement for the signatures of at least two officers, one of whom shall be the disbursing officer, for the disbursement of funds. The relief association has not designated anyone as a disbursing officer.

Per Article 4, Section 3, of the relief association's bylaws, states:

The trustees are entrusted to manage the funds of the relief association. All checks drawn on the association are signed by two trustees or one trustee and two other officers of the relief association.

In addition, the relief association bylaws do not contain provisions authorizing compensation for the secretary. During the current audit period, the relief association paid \$25,392 in compensation to the relief association secretary.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) states that the relief association's bylaws shall:

- (3) Require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

In addition, the relief association's bylaws should address the authorization of the amount of compensation to relief association officers.

Cause: Relief association officials were aware of the mandatory bylaw provisions established by Act 118, but neglected to ensure that its bylaws properly addressed the required provisions.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association expended funds and conducted its affairs without proper authorization. Furthermore, the salary paid to secretary was not properly authorized.

Recommendation: We, again, recommend that relief association officials revise the bylaws governing its organization so that the bylaws clearly meet the requirements set forth in Act 118 and properly authorize the operating procedures of the relief association, including the payment of all salaries. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

LOWER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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.

LOWER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Segregate Relief Association Officer's Duties

Condition: As cited in our prior audit report, the relief association has failed to segregate a relief association officer's duties. Specifically, the same individual who holds the position of secretary has also been delegated the responsibility for maintaining the financial records, even though different individuals hold the positions of secretary and acting treasurer.

The minimum requirements of the secretary's position, pertaining to a relief association, are to maintain detailed minutes of meetings evidencing that the relief association's financial transactions were authorized. The secretary should also review and coordinate amendments to the bylaws governing the relief association so that the bylaws meet the minimum requirements of Act 118.

The minimum requirements of the treasurer's position, pertaining to a relief association, are to maintain an accounting of all funds belonging to the relief association. The treasurer should maintain a journal and ledger detailing all financial transactions of the relief association along with documentation supporting all receipts and disbursements. The treasurer should co-sign all negotiable instruments along with another relief association officer. Also, financial statements should be prepared, at least on an annual basis, by the treasurer.

Criteria: Prudent business practice dictates that duties related to the maintenance of meeting minutes should be sufficiently segregated from duties related to the maintenance of financial records. Segregation of duties is the primary internal control intended to prevent or decrease the risk of errors or irregularities occurring and not being detected.

Cause: Even though notified of this condition during our prior audit, relief association officials, again, neglected the fact that having one person responsible for the maintenance of minutes of meetings and the maintenance of financial records results in a lack of segregation of duties.

Effect: A lack of segregation of duties prevents relief association officials and members from effectively monitoring the relief association's financial transactions. Additionally, it negates the checks and balances necessary to detect financial errors or irregularities and increases the risks of errors and irregularities occurring and going undetected.



LOWER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We, again, recommend the relief association ensure that there is adequate segregation between duties related to the maintenance of detailed minutes of relief association meetings authorizing the relief association's financial transactions and duties related to the maintenance of financial records to ensure that relief association assets are adequately safeguarded. 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.

LOWER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act<sup>1</sup>, it is the responsibility of the volunteer firefighters' relief association to invest its funds in a proper and prudent manner.

As these investments typically provide an income stream to the relief association for annual operations, it is generally sensible not to invest all VFRA money in one asset or asset class that places the principal at risk. In fact, state law requires VFRA's to "reasonably diversify investments, unless the [VFRA] reasonably determines that it is in the interest of the beneficiaries not to diversify..."<sup>2</sup>.

By diversifying investments, the VFRA can help preserve capital, increase liquidity and decrease volatility. Diversification means spreading one's money among different investments; asset allocation diversifies total investments among different investment classes, such as stocks, bonds, government securities, and cash equivalents.

As of December 31, 2010, the VFRA had \$5,550,703 (fair value) or 67% of the VFRA's cash and investments in stocks.

The VFRA management should periodically review its specific cash needs and investment goals and ensure that its investments are allocated and diversified to prudently meet those needs and goals.

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<sup>1</sup> 53 P.S. § 8506(c)(1997). This provision incorporates the "prudent investor rule" of the Probate, Estates, and Fiduciaries Code, 20 Pa. C.S.A. §7201 et seq.

<sup>2</sup> 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

LOWER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2010

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	\$ 1,512,088
Relief benefits	115,470
Total Benefit Services	\$ 1,627,558
Fire Services:	
Equipment purchased	\$ 544,931
Equipment maintenance	399,028
Training expenses	143,791
Fire prevention materials	20,509
Total Fire Services	\$ 1,108,259
Administrative Services:	
Officer compensation	\$ 25,392
Other administrative expenses	25,505
Trust custodian and management fees	106,881
Total Administrative Services	\$ 157,778
Total Investments Purchased:	\$ 2,572,709



LOWER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Lower Merion Volunteer Firefighters' Relief Association Governing Body:

Mr. Richard A. Cuff, President

Mr. Charles Powers, Vice President/Acting Treasurer/Director

Ms. Patricia M. Gallagher, Secretary

Mr. Brian P. Walsh, Trustee

Mr. John W. Thomas, Director

Mr. Ronald Ervais, Trustee

Mr. John Remillard, Director

Mr. Francis J. Leto, Trustee

Mr. Anthony J. Kopicki, Director

Mr. Frank Burdo, Trustee

Mr. Michael Sullivan, Director

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

Ms. Eileen R. Trainer, CMC, Secretary  
Lower Merion 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](http://www.auditorgen.state.pa.us).