THE SPRINGFIELD TOWNSHIP, DELAWARE COUNTY FIREFIGHTER'S RELIEF FUND ASSOCIATION OF PENNSYLVANIA

HEREIN REFERRED TO AS:

SPRINGFIELD TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 TO DECEMBER 31, 2007

JACK WAGNER

AUDITOR GENERAL

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JACK WAGNER

AUDITOR GENERAL

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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), 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 Springfield 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 84 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 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, 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 Springfield Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

Municipality	County	2006	2007
Springfield Township	Delaware	$200,601	$204,362

BACKGROUND (Continued)

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

Springfield Township Fire Company

Mr. John F. Gallagher, President
SPRINGFIELD TOWNSHIP VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Springfield 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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2006 to December 31, 2007.

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 Springfield Township Volunteer Firefighters' Relief Association's administration of state aid and accumulated 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 applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objectives. We also tested transactions, confirmed the Springfield Township Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2007, with the custodians of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our audit for the period January 1, 2006 to December 31, 2007, found, in all significant respects, the Springfield Township Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following finding[s] discussed later in this report. The results of our tests indicated the Springfield Township Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of $288,262 and an investment balance with a fair value of $1,180,935.

Finding – Unauthorized Expenditure

We also noted another matter that has been included in the following observation discussed later in this report.

Observation – Diversification of Investments

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

October 20, 2008

JACK WAGNER
Auditor General

SPRINGFIELD TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure to Provide Adequate Documentation of Discretionary Benefits Paid

  By only providing benefits on behalf of members: individuals who have participated in fire service and whose names appear on the membership roster and by establishing a discretionary benefits policy within the relief association's bylaws. In addition, the relief association did not provide financial assistance to members during the audit period.

- Inadequate Relief Association Bylaws

  By revising the relief association bylaws to meet the minimum requirements of Act 84.

- Failure to Maintain a Complete and Accurate Equipment Roster

  By maintaining a cumulative equipment roster of equipment owned and documenting the performance of an annual equipment inventory.

SPRINGFIELD TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Unauthorized Expenditures

Condition: During and subsequent to the audit period, the relief association expended funds for the following items that are not authorized by Act 84:

Date	Check No.	Description	Amount
08/29/07	10732	Advanced college course tuition	$ 1,305
02/12/08	10794	Advanced college course tuition	366
07/24/08	10851	Turn out gear for non-relief association members	15,095
		Total	$ 16,766

Criteria: Act 84 at 53 P.S. § 8506(e)(10 and 11) states:

> The funds of any volunteer firefighters' relief association may be spent:
>
> (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.
>
> (11) To purchase safeguards for preserving life, health, and safety to volunteer firefighters, so as to ensure their availability to participate in the volunteer fire service.

Because the Department of the Auditor General is legislatively prohibited from giving pre-audit advice, an interagency agreement with the Department of Community and Economic Development (DCED) had been established whereby the DCED provided interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." Advanced college courses have been deemed by DCED to not qualify as a "bona fide firefighters' training school"; consequently, these disbursements for advanced college courses are not authorized under Act 84.

The guidance regarding the permissibility of certain expenses under Act 84 is provided on page 18 of the Management Guidelines for Volunteer Firefighters' Relief Associations, the policy states:

> College accredited classes consisting of advanced course work in preparation for a career professional firefighter occupation, do not meet the criteria for reimbursement with relief association funds.

Finding – (Continued)

In addition, while the relief association may expend funds for firefighter safety equipment, the equipment must be for the benefit of the relief association or its members. Here, however, the disbursement for safety equipment was for individuals that were not volunteer relief association members. Consequently, the $15,095 disbursement for turn out gear for non-relief association members is not considered authorized under Act 84.

Cause: Relief association officials were unaware that the aforementioned expenditures were not authorized by Act 84.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 84.

However, subsequent to the current audit period, on November 17, 2008, the relief association received reimbursement in the amount of $16,766 from Springfield Township Fire Company.

Recommendation: We recommend the relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) 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 agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

SPRINGFIELD TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act[1], 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…"[2].

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, 2007, the VFRA had $776,258 (fair value) or 53% of the VFRA's cash and investments in stocks and mutual funds.

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.

[1] 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.

[2] 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

SPRINGFIELD TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2007

Act 84 at 53 P.S. § 8502(1) states, in part, that:

> 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. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, 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. 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	$	237,606
Relief benefits		46,056
Total Benefit Services	$	283,662
Fire Services:		
Equipment purchased	$	69,602
Equipment maintenance		57,541
Training expenses		8,551
Total Fire Services	$	135,694
Administrative Services:		
Officer compensation	$	50,892
Other administrative expenses		55,270
Brokerage fees		20,713
Total Administrative Services	$	126,875
Total Investments Purchased	$	250,000
Other Expenditures:		
Real estate taxes on rental property	$	5,548
Maintenance expenses on rental property		3,666
Utilities and insurance on rental property		2,528
Total Other Expenditures	$	11,742

JACK WAGNER

AUDITOR GENERAL

SPRINGFIELD TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Springfield Township Volunteer Firefighters' Relief Association Officers:

Mr. John F. Gallagher, President

Mr. William F. Woolston III, Secretary

Mr. David Osciak, Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Mr. Michael T. LeFevre, Secretary
Springfield 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.