

**TINICUM FIREMEN'S RELIEF ASSOCIATION OF TINICUM TOWNSHIP,
DELAWARE COUNTY AND PENNSYLVANIA**

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008 TO DECEMBER 31, 2009



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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 Tincum Firemen's Relief Association of Tincum Township, Delaware County and Pennsylvania, herein referred to as Tincum 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 Tincum Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>
Tincum Township	Delaware	\$46,177	\$46,240

BACKGROUND (Continued)

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

Tincum Township Fire Company

Mr. Jonathan Buschmeier, President
TINICUM TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Tinicum 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, 2008 to December 31, 2009.

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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Tinicum 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting

the Tincum 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 Tincum Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. 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 objective.

The results of our audit, for the period January 1, 2008 to December 31, 2009, found the Tincum Township 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 later in this report. The results of our tests also indicated the Tincum Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$166,650. However, as a result of our inability to obtain an independent confirmation of an account balance included in the relief association's total investment balance, a scope limitation on our audit exists which prevented us from determining the fair value of the Tincum Township Volunteer Firefighters' Relief Association's investment balance which was reported at \$259,154, as of December 31, 2009. This issue is detailed in Finding No. 3 in the Findings and Recommendations section of this report.

Finding No. 1 – Unauthorized Expenditure

Finding No. 2 – Inadequate Minutes of Meetings

Finding No. 3 – Scope Limitation

Furthermore, we noted another matter that has been included in the 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 Tincum Township Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

December 23, 2010

JACK WAGNER
Auditor General

TINICUM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditure

Condition: The relief association expended \$525 for training of relief association non-members, which is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(10) 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.

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) has been established whereby the DCED provides interpretation of Act 118. Costs associated with training of relief association non-members has been deemed by DCED to not qualify as an authorized expenditure.

Cause: Relief association officials were unaware that the expenditure for the training of relief association non-members is not authorized by Act 118.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

However, subsequent to the audit period, on November 3, 2011, the Tincum Township Fire Company reimbursed the relief association \$525 for the unauthorized expenditure.

Recommendation: We recommend the relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) 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.

TINICUM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Minutes of Meetings

Condition: 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.

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: Relief association officials were unaware that maintaining detailed minutes of meetings was 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 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.

TINICUM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Scope Limitation

Condition: \$257,106 of the Tinicum Township Volunteer Firefighters' Relief Association's (VFRA) investment balance reported at \$259,154, as of December 31, 2009, could not be confirmed. While we received a confirmation of a \$2,048 mutual fund account balance, the remaining balance of \$257,106 was not confirmed by the other financial institution. Two separate requests for an independent confirmation of this account balance were made on December 23, 2010 and June 24, 2011 to the financial institution from which the VFRA purchased this mutual fund. While the VFRA provided a December 31, 2009 financial institution account statement detailing this mutual fund account balance, the financial institution failed to provide an independent confirmation of the account balance.

Criteria: 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. 7.55 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 7.60(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 institutions from which the VFRA purchased the investments.

Cause: Even though we made two requests, a confirmation of this account's investment balance was not provided by the respective financial institution.

Effect: Our inability to confirm the VFRA's total investment balance constitutes a scope limitation on our audit, as this scope limitation prevented us from determining the fair value of the VFRA's investment balance reported at \$259,154, as of December 31, 2009.

Recommendation: Since the VFRA chooses where to place its funds, the VFRA controls the financial institution with which it does business. Therefore, the VFRA should instruct its financial institution to provide requested confirmations or consider withdrawing its funds and placing these funds with another financial institution.

TINICUM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act¹, 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, 2009, the VFRA had \$259,154 (fair value) or 61% of the VFRA's cash and investments in 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).

TINICUM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2009

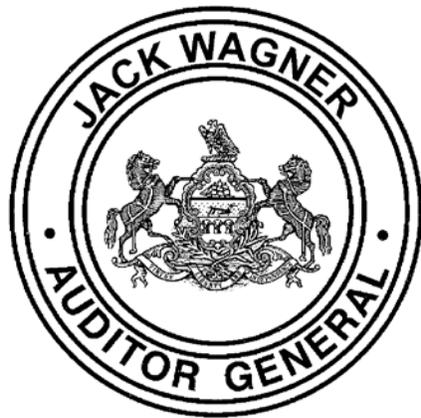
Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The 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	\$ 35,419
Death benefits	2,000
Tokens of sympathy and goodwill	1,010
Total Benefit Services	\$ 38,429
Fire Services:	
Equipment purchased	\$ 62,485
Equipment maintenance	29,796
Training expenses	10,987
Fire prevention materials	714
Total Fire Services	\$ 103,982
Administrative Services:	
Miscellaneous administrative expenses	\$ 106
Total Administrative Services	\$ 106



TINICUM TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Tinicum Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Jonathan Buschmeier, President

Ms. Noreen Sullivan, Vice President

Mr. Joseph Sprague, Secretary

Mr. Steve Giancristoforo, Treasurer

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

Ms. Jean L. McCoy, Secretary
Tinicum 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.