



**GLENOLDEN VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
GLENOLDEN, PA**

HEREIN REFERRED TO AS:

GLENOLDEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

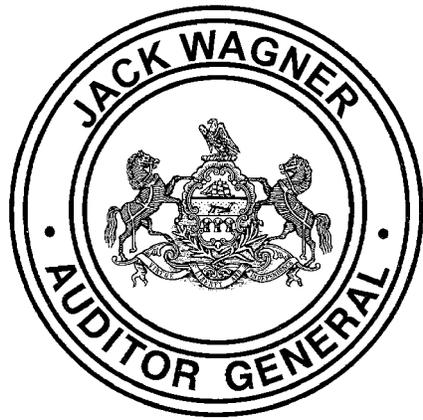
FOR THE PERIOD

JANUARY 1, 2005 TO DECEMBER 31, 2007



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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, 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 Glenolden 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 Glenolden Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Glenolden Borough	Delaware	\$43,290	\$43,388	\$44,914

BACKGROUND (Continued)

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

Glenolden Fire Company No. 1

Mr. John J. MacVeigh III, President
GLENOLDEN VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Glenolden 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, 2005 to December 31, 2007. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

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 Glenolden 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 objective. We also tested transactions, confirmed the Glenolden 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 objective.

The results of our audit for the period January 1, 2005 to December 31, 2007, found, in all significant respects, the Glenolden 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 discussed later in this report. The results of our tests indicated the Glenolden Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$32,817 and an investment balance with a fair value of \$912,052.

Finding – Unauthorized Expenditures

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 Glenolden Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

April 7, 2008

JACK WAGNER
Auditor General

GLENOLDEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Unauthorized Expenditures

Condition: The relief association expended funds for the following items, which are not authorized by Act 84:

Date	Check No.	Description	Amount
08/03/05	1811	Subsistence in excess of IRS allowance	\$ 559
06/02/06	1836	Subsistence in excess of IRS allowance	438
06/02/06	1836	Unreasonable lodging expenses	496
09/17/07	1861	Subsistence in excess of IRS allowance	422
09/17/07	1861	Convention expenses for extra member	92
Total			<u>\$ 2,007</u>

Criteria: Act 84 at 53 P.S. § 8506(e)(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.

The position of this department with regard to the permissibility of expenses incurred for members to attend authorized training courses, conventions, and conferences is published in the department's Management Guidelines for Volunteer Firefighters' Relief Associations.

Relief association funds may be expended to pay for lodging, travel, and subsistence expenses. Expenses for subsistence, such as meals, may be reimbursed based on actual receipts or by the per-diem rate established by the Volunteer Firefighters' Relief Association bylaws. However, the reimbursement may not exceed the Internal Revenue Service (IRS) subsistence allowance. Expenses associated with training should be addressed in the relief association's bylaws or policy manuals to make sure the membership of the association understands the reimbursement criteria.

Volunteer firefighters' relief associations may pay for the expenses of one delegate to attend a statewide firefighters' convention. A "statewide firefighters' convention" (in-state convention) is interpreted to mean that the location of the convention is held within the Commonwealth. Out-of-state conventions may not be paid from relief association funds.

Furthermore, while the relief association is permitted to pay expenses incurred for attending bona fide firefighters' training schools, the expenses need to be reasonable in amount. Here, the \$496 in lodging expenses incurred to attend this convention is deemed an unreasonable expense since the convention site was located only approximately 20 miles from Glenolden Borough.

GLENOLDEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

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.

Recommendation: We recommend the relief association be reimbursed \$2,196 for the unauthorized expenditures and that 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.

GLENOLDEN 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, 2007, the VFRA had \$912,052 (fair value) or 97% 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).

GLENOLDEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 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	\$ 55,909
Death benefits	35,000
Relief benefits	4,092
Total Benefit Services	\$ 95,001
Fire Services:	
Equipment purchased	\$ 150,604
Equipment maintenance	2,205
Training expenses	3,950
Total Fire Services	\$ 156,759
Administrative Services:	
Miscellaneous administrative expenses	\$ 2,937
Total Administrative Services	\$ 2,937
Total Investments Purchased	\$ 245,000

GLENOLDEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Glenolden Volunteer Firefighters' Relief Association Officers:

Mr. John J. MacVeigh III, President

Mr. Joseph A. Deeney, Secretary

Mr. Gerald J. McGettigan, Treasurer

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

Ms. Donna McGrenaghan, Secretary
Glenolden Borough

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.