



**GLENOLDEN VOLUNTEER FIREMENS' RELIEF ASSOCIATION  
OF GLENOLDEN, PA**

**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 Glenolden Volunteer Firemens' Relief Association of Glenolden, PA, herein referred to as 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 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 Glenolden Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>
Glenolden Borough	Delaware	\$45,592	\$41,170

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, 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, 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 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 finding 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 Glenolden 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 Glenolden Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Glenolden 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 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, 2009, found the Glenolden Volunteer Firefighters' Relief Association took appropriate corrective action to address the finding contained in our prior audit report and, 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 finding listed below and discussed later in this report. The results of our tests also indicated the Glenolden Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$27,766 and an investment balance with a fair value of \$810,349.

#### Finding – Inadequate Relief Association Bylaws

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 response has been included in the report.

May 13, 2010

JACK WAGNER  
Auditor General



GLENOLDEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Glenolden Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Unauthorized Expenditures

By receiving reimbursement of \$2,196 from the affiliated fire company for unauthorized expenditures. We did not detect any additional unauthorized expenditures during the current audit period.

GLENOLDEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the Glenolden Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not include general association receipt and disbursement requirements. In addition, the bylaws do not include provisions for adequate treasurer bond coverage. Instead, the bylaws state that the treasurer's bond amount will be determined by the association. Finally, the association bylaws specifies a death benefit of \$10,000; however, we noted two instances in which the death benefit paid was \$20,000, for a total of \$40,000.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c) states, that the relief association's bylaws should include the following:

All receipts of the association shall be deposited timely by the treasurer in an account in the name of the association. Relief funds shall not be disbursed for any purpose other than those authorized by the provisions of Act 118. All receipts and disbursements shall be recorded in association journals and ledgers and supporting documentation shall be maintained.

Require that the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against funds of the association.

Furthermore, the relief association bylaws should authorize and clearly specify the criteria to be met before receiving death or relief benefits and the amount of any benefit payments. In addition, the bylaws should address the authorization of compensation to relief association officers.

In addition, association bylaws, Article VI, Section 2, states, in part...there is an ADDITIONAL DEATH BENEFIT of \$10,000 available to members.

Cause: Relief association officials were aware of the bylaw guidelines established by Act 118. However, they failed to amend their bylaws. Regarding the death benefit amount, the amount of the death benefit was increased by the association and documented in the minutes of the meetings. However, officials failed to make the change to their bylaws.

GLENOLDEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization. The relief bond amount was sufficient during the audit period; however, without a change to the bylaws, the bond amount could be insufficient in the future.

Recommendation: We recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118. Specifically, they should include receipt and disbursement provisions, a provision to ensure that the bond amount is at least as great as the maximum cash balance, and the bylaws should indicate the amount of the death benefit. 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 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, 2009, the VFRA had \$428,273 (fair value) or 51% 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.

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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).

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

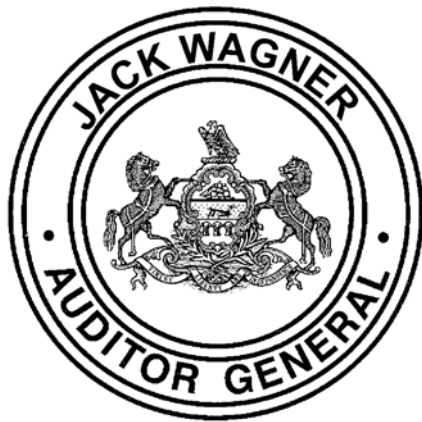
Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The 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	\$ 45,360
Death benefits	60,000
Relief benefits	16,501
Total Benefit Services	\$ 121,861
Fire Services:	
Equipment purchased	\$ 1,083
Equipment maintenance	7,934
Training expenses	1,050
Total Fire Services	\$ 10,067
Administrative Services:	
Miscellaneous administrative expenses	\$ 2,635
Total Administrative Services	\$ 2,635
Total Investments Purchased	\$ 20,000



GLENOLDEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Glenolden Volunteer Firefighters' Relief Association Governing Body:

Mr. John J. MacVeigh, President

Mr. George E. Hassel, Vice President

Mr. Michael J. Gaffney, Secretary

Mr. Gerald J. McGettigan, Treasurer

A report was also distributed to the following 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](http://www.auditorgen.state.pa.us).