



**THE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF UNION FIRE  
COMPANY #1, OXFORD, CHESTER COUNTY, PENNSYLVANIA**

**HEREIN REFERRED TO AS:**

**UNION NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**CHESTER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006 TO DECEMBER 31, 2008**



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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 Union No. 1 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.

BACKGROUND (Continued)

The Union No. 1 Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

| <u>Municipality</u>      | <u>County</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|--------------------------|---------------|-------------|-------------|-------------|
| East Nottingham Township | Chester       | \$49,027    | \$50,486    | \$52,057    |
| Elk Township             | Chester       | \$12,330    | \$12,548    | \$13,012    |
| Lower Oxford Township    | Chester       | \$28,528    | \$29,035    | \$29,957    |
| Oxford Borough           | Chester       | \$26,824    | \$27,494    | \$28,055    |
| Upper Oxford Township    | Chester       | \$ 9,094    | \$ 9,241    | \$ 9,469    |
| West Nottingham Township | Chester       | \$17,707    | \$18,661    | \$18,892    |
| Colerain Township        | Lancaster     | \$ 5,487    | \$ 5,807    | \$ 5,986    |

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Union No. 1 Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Union Fire Company No. 1

Mr. Alan R. Hastings, President  
UNION NO. 1 VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Chester County

We have conducted a compliance audit of the Union No. 1 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, 2008.

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 Union No. 1 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 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 Union No. 1 Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Union No. 1 Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, 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, 2006 to December 31, 2008, found the Union No. 1 Volunteer Firefighters' Relief Association took appropriate corrective action to address three of the four findings contained in our prior audit report. However, the relief association failed to take appropriate corrective action for the remaining finding as listed below and discussed later in this report. In addition, the results of our audit found, in all significant respects, the Union No. 1 Volunteer Firefighters' Relief Association received and expended 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 Union No. 1 Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$125,584 and an investment balance with a fair value of \$630,909.

Finding – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

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 Union No. 1 Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

November 18, 2009

JACK WAGNER  
Auditor General



UNION NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Union No. 1 Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Unauthorized Expenditures

By receiving reimbursement in the amount of \$3,357, on May 10, 2006, for the unauthorized expenditures made in the prior audit period. In addition, the relief association did not make any unauthorized expenditures during the current audit period.

- Undocumented Expenditure

By receiving reimbursement, subsequent to the current audit period, on January 12, 2010, in the amount of \$820, for the undocumented expenditure made in the prior audit period. In addition, we did not detect any additional undocumented expenditures during the current audit period.

- Insufficient Officer's Bond Coverage

By increasing the officer's bond coverage to an amount greater than the balance of cash assets.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Union No. 1 Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This finding is noted below and discussed in detail in the Finding and Recommendation section of this report:

- Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

We are concerned with the volunteer firefighters' relief association's failure to correct a previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

UNION NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the prior audit report, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. The relief association provided a roster of equipment during the current audit. However, the roster only provided a description of the equipment and did not include dates of purchase, unit costs, supplier, serial number or location of the equipment. Furthermore, there was no indication that a physical inventory of the equipment was performed to account for the relief association's fixed assets.

Criteria: The relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association, and the performance of an annual physical inventory of equipment, in order to provide an effective accounting control over the relief association's fixed assets. A cumulative equipment roster of all relief association equipment should include the following:

- Type of equipment purchased;
- Date of purchase;
- Unit cost;
- Name of supplier;
- Serial number, if applicable;
- Current location of item;
- Final disposition of sold or damaged equipment; and
- Notation of the annual inventory.

Cause: Relief association officials failed to establish adequate internal control over fixed assets requiring the maintenance of a cumulative equipment roster and the performance of an annual physical equipment inventory.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. Furthermore, the failure to maintain a detailed equipment roster and perform a physical equipment inventory prevents officials from adequately accounting for, and safeguarding, relief association fixed assets.

Recommendation: Again, we recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. Furthermore, the relief association should ensure they perform an annual physical inventory of all operable equipment and that the inventory be sufficiently documented. 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.

UNION NO. 1 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, 2008, the VFRA had \$369,418 (fair value) or 49% 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).

UNION NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

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              | \$ 53,127  |
| Relief benefits                 | 9,962      |
| Tokens of sympathy and goodwill | 353        |
| Total Benefit Services          | \$ 63,442  |
|                                 |            |
| Fire Services:                  |            |
| Equipment purchased             | \$ 318,591 |
| Equipment maintenance           | 76,380     |
| Training expenses               | 78,897     |
| Fire prevention materials       | 4,748      |
| Total Fire Services             | \$ 478,616 |
|                                 |            |
| Administrative Services:        |            |
| Officer compensation            | \$ 1,800   |
| Other administrative expenses   | 2,182      |
| Total Administrative Services   | \$ 3,982   |
|                                 |            |
| Total Investments Purchased     | \$ 322,446 |

UNION NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Union No. 1 Volunteer Firefighters' Relief Association Governing Body:

Mr. Alan R. Hastings, President

Mr. Gregory Paxson, Vice President

Ms. Michelle L. Smith, Secretary

Ms. Marylou M. McKinney, Treasurer

Mr. Terry Reisinger, Director

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

Ms. Patricia Brady, Secretary  
East Nottingham Township

Ms. Terri Kukoda, Secretary  
Elk Township

Ms. Sara B. Laganelli, Secretary  
Lower Oxford Township

Ms. Betsy V. Brantner, Secretary  
Oxford Borough

Ms. Jane L. Daggett, Secretary  
Upper Oxford Township

Ms. Candace Miller, Secretary  
West Nottingham Township

Ms. Martha M. Kepler, Secretary  
Colerain 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).