



**FIREFIGHTERS' RELIEF ASSOCIATION OF UPPER MERION TOWNSHIP,  
PENNSYLVANIA 19406**

**HEREIN REFERRED TO AS:**

**UPPER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**MONTGOMERY COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2007 TO DECEMBER 31, 2008**



## CONTENTS

Background.....	1
Letter From the Auditor General .....	3
Status of Prior Finding .....	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster .....	6
Finding No. 2 – Failure to Document Ownership in Jointly Purchased Vehicle Safety Equipment.....	8
Observation.....	10
Accompanying Expenditure Information .....	11
Report Distribution List .....	13



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 Upper Merion 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 Upper Merion Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>
Upper Merion Township	Montgomery	\$399,485	\$403,532

BACKGROUND (Continued)

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

King of Prussia Volunteer Fire Company  
Lafayette Ambulance Squad  
Swedeland Volunteer Fire Company  
Swedesburg Volunteer Fire Company

Mr. Carl Shivick, President  
UPPER MERION VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Montgomery County

We have conducted a compliance audit of the Upper Merion 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, 2007 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 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 Upper Merion 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 Upper Merion Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Upper Merion 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, 2007 to December 31, 2008, found, in all significant respects, the Upper Merion Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the finding contained in our prior audit report. The results of our audit also found the Upper Merion Volunteer Firefighters' Relief Association received and expended state aid and accumulated funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the findings listed below and discussed later in the Status of Prior Finding section of this report. The results of our tests also indicated the Upper Merion Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$365,148 and an investment balance with a fair value of \$1,076,352.

Finding No. 1 – Noncompliance with Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Failure to Document Ownership in Jointly Purchased Vehicle Safety Equipment

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

December 29, 2009

JACK WAGNER  
Auditor General



UPPER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Upper Merion Volunteer Firefighters' Relief Association has not complied with the prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations 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 the previously reported audit finding. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

UPPER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our prior audit report, the relief association officials, again, did not maintain a complete and accurate roster of equipment owned by the relief association. Relief association officials did not provide an equipment roster for equipment located at any of its four affiliated fire service organizations for the audit period. The relief association had provided a roster of equipment for the prior audit of 2004 through 2006. The relief association disbursed a total of \$460,480 in 2007 and 2008 for equipment. In addition, there was no indication that an annual physical inventory of equipment was performed.

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 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:

- Types of equipment purchased;
- Dates of purchases;
- Unit costs;
- Names of suppliers;
- Serial numbers, if applicable;
- Current locations of items;
- Final dispositions of sold or damaged equipment; and
- Evidence of the results of annual physical inventory.

Furthermore, sound business practice requires the performance of an annual physical inventory of all relief association owned equipment.

Cause: While notified of this condition during our prior audit, relief association officials neglected to establish adequate internal control procedures over fixed assets requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of fixed assets prevents adequate accountability for, and safeguarding of, relief association fixed assets.

UPPER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of 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.

UPPER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Document Ownership in Jointly Purchased Vehicle Safety Equipment

Condition: In April 2005, April 2006, and April 2007, the relief association expended \$261,891 to purchase safety equipment that was placed on six fire service organization vehicles owned by the township. Once added to the vehicles, the safety equipment became an integral part of the vehicles and added to the overall value of each vehicle. However, the relief association did not adequately secure its ownership interests in one vehicle as a result of the installation of the safety equipment.

Criteria: Act 84 at 53 P.S. § 8507(a) states, in part:

The Department of the Auditor General shall have the power, and its duty shall be, to audit the accounts and records of every volunteer firefighters' relief association receiving any money under Chapter 7 of the act of December 18, 1984 (P.L. 1005, No. 205), known as the "Municipal Pension Plan Funding Standard and Recovery Act," as amended, as far as may be necessary to satisfy the department that the money received was expended or is being expended for no purpose other than that authorized by this act.

Prudent business practice dictates that the relief association should document its proportional ownership interest in the vehicles after installation of the safety equipment by executing a formal written agreement that enumerates the relief association's proportional share of ownership. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicles, in the event the vehicles are ever sold.

Cause: Although aware of the ownership documentation requirement, relief association officials failed to adequately document its proportional ownership interest in the vehicle after installation of the safety equipment.

Effect: Failure to adequately document the proportional share of ownership interest in the vehicle places the relief association's ownership interest at greater risk.

UPPER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

However, as a result of our audit, in June 2011, the relief association provided vehicle invoices and/or copies of checks for the vehicle costs. In addition, the relief association provided written agreements between the relief association and the township for five of the six vehicles. See the following:

Safety Equipment Cost	Vehicle	Vehicle Cost	Auditor Calculated % of Ownership	VFRA % Ownership Per Agreement
\$ 42,395	Pumper	\$ 428,024	10%	10%
22,452	Engine 47-2	428,024	5%	5%
34,343	Engine 47-1	371,759	9%	9%
66,178	Rescue 47	523,783	13%	13%
61,105	Squad 48	554,991	11%	10%
35,418	Rescue 49	*	*	*
<u>\$ 261,891</u>				

\* Relief association officials failed to provide substantiation of the cost of the Rescue 49 vehicle and a written agreement between the relief association and the township enumerating the relief association's proportional share of ownership in this vehicle.

Recommendation: We recommend the relief association obtain the vehicle cost via invoice or copy of the check and execute a formal written agreement with the township that enumerates the relief association's proportional ownership interest in the Rescue 49 vehicle as a result of the costs incurred for the purchase and installation of vehicle safety equipment, as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event that the Rescue 49 vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$35,418 for the cost of the safety equipment installed on this vehicle. 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.

UPPER MERION 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 \$798,961 (fair value) or 55% 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.

---

<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).

UPPER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2008

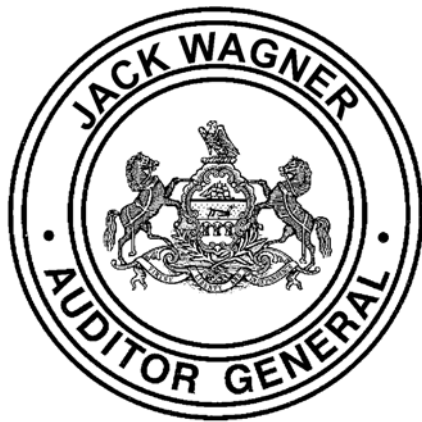
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 201,979
Death benefits	4,000
Total Benefit Services	\$ 205,979
Fire Services:	
Equipment purchased	\$ 460,480
Equipment maintenance	44,973
Training expenses	27,335
Fire prevention materials	2,294
Total Fire Services	\$ 535,082
Administrative Services:	
Officer compensation	\$ 3,600
Other administrative expenses	2,530
Total Administrative Services	\$ 6,130
Other Expenditures:	
Principal payments on loan	\$ 177,367
Interest payments on loan	33,142
Total Other Expenditures	\$ 210,509





UPPER MERION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Upper Merion Volunteer Firefighters' Relief Association Governing Body:

Mr. Carl Shivick, President

Mr. Christopher Comarda, Vice President

Mr. Gary Gutkowski, Secretary

Mr. Frederick Koeck, Treasurer

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

Mr. Ronald G. Wagenmann, Secretary  
Upper Merion 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).