



FEASTERVILLE FIRE COMPANY RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

BUCKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 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 Feasterville 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 Feasterville Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>
Lower Southampton Township	Bucks	\$73,557	\$81,279

BACKGROUND (Continued)

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

Feasterville Fire Company

Mr. Steve Rymond, President
FEASTERVILLE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Bucks County

We have conducted a compliance audit of the Feasterville 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, 2007.

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 Feasterville 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 objectives. We also tested transactions, confirmed the Feasterville 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 objectives.

The results of our audit for the period January 1, 2006 to December 31, 2007, found, in all significant respects, the Feasterville 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 findings discussed later in this report. The results of our tests indicated the Feasterville Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$331,167 and an investment balance with a fair value of \$109,478.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Document and Secure Ownership Interest in Jointly Purchased
Vehicles

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Sufficiently Define Discretionary Benefits

Finding No. 4 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 5 – Failure to Maintain Minutes of Meetings

Finding No. 6 – Inadequate Financial Record-Keeping System

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

November 20, 2008

JACK WAGNER
Auditor General

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Feasterville Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Inappropriate Payments on Fire Company Finance Agreement

By executing a written agreement with the Feasterville Fire Company which states the fire company assigns all ownership rights of the radio equipment to the Feasterville Volunteer Firefighters' Relief Association.

- Unauthorized Expenditure

By receiving reimbursement, in the amount of \$170, from the Feasterville Fire Company for the pediatric automated external defibrillator supplies, which was considered an unauthorized expenditure in the prior audit. In addition, the relief association did not make any unauthorized expenditures during the current audit period.

- Failure to Maintain a Federal Tax Identification Number

By obtaining a new federal tax identification number and obtaining tax exempt status as a nonprofit corporation under Internal Revenue Code 501 (c)(3).

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Feasterville Volunteer Firefighters' Relief Association has not complied with these prior audit findings. These issues are further discussed in the following findings noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

While the relief association provided adequate supporting documentation for \$945 of the undocumented expenditures reported during the prior audit period, three expenditures made in the prior audit period totaling \$2,515 remain undocumented. In addition, the relief association made an additional undocumented expenditure during the current audit period. This is discussed in Finding No. 2 on page 9 of this report.

- Noncompliance With Prior Audit Recommendation –
Failure to Document and Secure Ownership Interest in Jointly Purchased Vehicle

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

- Noncompliance With Prior Audit Recommendation –
Failure to Sufficiently Define Discretionary Benefits
- 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 findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Document and Secure Ownership Interest in Jointly Purchased
Vehicle

Condition: As cited in the prior audit report, on April 3, 2002, the relief association expended \$100,000 for the purpose of jointly purchasing a vehicle with the Feasterville Fire Company. However, the relief association did not adequately document and secure its ownership interest in this jointly purchased vehicle. Although the relief association provided an agreement between the fire company and the relief association for this transaction, the agreement did not enumerate the relief association's proportional share of financing. The agreement provided listed the purchase price of the vehicle. However, an invoice detailing the purchase price was not attached as stated in the agreement. Therefore, we could not verify the purchase price and the relief association's prorated ownership share. Also, the relief association failed to have its name recorded as a lien holder on the title to the vehicle to properly secure its investment in the vehicle.

In addition, during the current audit period, on April 24, 2006, the relief association expended \$25,000 for the purpose of jointly purchasing another vehicle with the Feasterville Fire Company. However, the relief association did not adequately document and secure its ownership interest in this jointly purchased vehicle. An agreement was not provided, and the relief association did not provide evidence that its name was recorded as a lien holder on the title.

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 secure its proportional ownership interest in a jointly purchased vehicle by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold. In addition, in order to secure its ownership interest in the vehicle, the relief association should have its name recorded as lien holder on the title to the vehicle to properly safeguard its investment.

Cause: While notified of this condition in the prior audit report, the relief association officials failed to adequately secure its proportional ownership interest in the jointly purchased vehicles.

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: Failure to adequately secure the proportional share of ownership interest in the jointly purchased vehicles places the relief association's ownership interest at greater risk.

Recommendation: We again recommend the relief association execute two formal written agreements with the fire company that enumerates the relief association's proportional ownership interest in the two jointly purchased vehicles as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicles are ever sold. In addition, in order to secure its ownership interest in the vehicles, the relief association should have its name recorded as lien holder on the title to the vehicles to properly secure its investment. If such action is not taken, we recommend that the relief association be reimbursed \$125,000. 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.

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Condition: As cited in the prior audit report, the relief association was unable to provide adequate supporting documentation for the following expenditures:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
05/13/04	1019*	Equipment maintenance vendor	\$ 84
08/19/04	1196*	Financial services vendor	2,385
08/11/05	1057*	Equipment maintenance vendor	46
Total prior audit period undocumented expenditures			<u>\$ 2,515</u>

In addition, during the current audit engagement, the relief association failed to provide adequate supporting documentation for the following undocumented expenditure made during the current audit period:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
08/07/06	1014*	Equipment Vendor	\$ 2,286
Total current audit period undocumented expenditures			<u>\$ 2,286</u>
Total prior and current period undocumented expenditures			<u>\$ 4,801</u>

*Checks are from two different accounts.

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.

Without adequate supporting documentation, such as invoices, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require that supporting documentation be maintained to verify the propriety of all financial transactions.

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: While notified of this condition in the prior audit report, relief association officials neglected to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as invoices, made it impossible to determine if the expenditures were made in accordance with Act 84.

Recommendation: We again recommend the relief association provide this department with adequate supporting documentation, such as invoices, to determine the validity of the expenditures or that the relief association be reimbursed \$4,801 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all 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.

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Sufficiently Define Discretionary Benefits

Condition: As cited in the prior audit report, the relief association did not sufficiently define discretionary benefits that were being offered to its members. During the prior audit period, the relief association paid \$19,500 in death benefits to the beneficiaries of relief association members and \$6,900 in discretionary relief benefits to certain members of the relief association. During the current audit period, the relief association paid \$13,000 in death benefits to beneficiaries of relief association members. Although these expenditures are authorized by Act 84, the amount and criteria to be met before receiving the benefits are not described in a formal policy approved by the relief association membership. While Article XI of the relief association bylaws describes the amount of the discretionary benefits being offered, the bylaw provision does not include specific criteria to be met before receiving the benefit. In addition, the death benefits offered by the relief association are not authorized by the current bylaws.

Criteria: Act 84 at 53 P.S. § 8503 (3) and (5) state, in part, that funds shall be available:

- (3) To provide, either by insurance or by the operation of a beneficial fund, for the payment of a sum certain to the designated beneficiaries of a participating member in such fund following the death of such member for any cause, and **to establish criteria which members must meet in order to qualify** as participants in such death benefit fund; and (emphasis added)
- (5) To provide financial assistance to volunteer firefighters who, after having actively participated in the fire service **for a specified minimum term**, are no longer physically able to continue such participation and are in need of financial assistance. (emphasis added)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, disability benefits, officer compensation, or any other type of discretionary benefit provided by Act 84, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal relief association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well as the criteria to be met in order to receive the benefits.

Cause: While notified of this condition in the prior audit report, relief association officials neglected the specific stipulations of Act 84 and did not perceive the formal approval to be an essential internal control in safeguarding relief association assets. As a result, they failed to establish procedures to formally define the benefits and related criteria for the benefits offered to members.

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: The relief association's failure to formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the relief association.

During the current audit period, the relief association provided new bylaws. However, we were not able to determine that these new bylaws were properly amended in accordance with the amendment provisions contained in the existing relief association bylaws. Furthermore, while the new bylaws do contain a provision authorizing a specific amount for death benefits, the new bylaws still do not specify the criteria to be met before receiving other discretionary benefits.

Recommendation: We again recommend relief association officials formally define and document the criteria of the discretionary benefits being offered to its membership. The formal approval of benefits and related criteria should be documented in the bylaws, a policy statement, or in the official meeting minutes, and should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the eligibility criteria to be met before receiving the benefit. Furthermore, all approved discretionary benefits should be in accordance with provisions of Act 84. If such formal criteria is not developed to clearly define the eligibility requirements, then the payment of discretionary benefits should be immediately discontinued. 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.

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the two prior audit reports, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. This deficiency has now been reported in three consecutive audit reports of the Feasterville Volunteer Firefighters' Relief Association; but we have noted little effort, if any, taken to remedy the above reported deficiencies regarding accounting for the relief association's equipment purchases. Based on our testing of equipment purchased during the audit period and documentation available at the time of the audit engagement, it appears that the accounting control over the relief association's fixed assets has deteriorated during the audit period.

The relief association had provided an equipment roster in prior audits but the rosters previously maintained and provided in prior audit engagements did not contain all equipment purchased and did not contain serial numbers to accurately identify equipment owned. During the current audit, the relief association did not provide a roster of equipment purchased during the audit period. As such, it was impossible to determine if equipment purchased during the audit period had been accurately recorded and accounted for. Since the relief association did not provide an equipment roster during the current audit, there was no documentation available at the time of the audit to show that the relief association had performed an annual inventory of its equipment. It is the relief association's responsibility to have sufficient records to be able to determine if all equipment purchased had been recorded and accounted for. It is imperative that accurate records be maintained so that the relief association can have an accurate accounting of its equipment purchases and perform annual inventories of its equipment to properly safeguard its 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 in order to provide an effective accounting control over the relief association's fixed assets. A cumulative 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.
- Notation of the annual inventory.

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Cause: While notified of this condition in the prior audit report, relief association officials neglected to establish adequate internal control procedures over fixed assets to include the maintenance of a cumulative equipment roster and the performance of an annual 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. In addition, the failure to maintain a detailed equipment roster and perform an annual equipment inventory prevents adequate accountability and safeguarding of relief association assets.

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

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure to Maintain Minutes of Meetings

Condition: The relief association did not maintain minutes of meetings, as required by Act 84. Specifically, the relief association failed to provide copies of any meeting minutes for the current audit period. As such, it was impossible to determine whether the relief association held meetings monthly as required by the relief association's bylaws or whether the financial-related transactions that occurred during the audit period were presented before the membership for approval.

Criteria: Act 84 at 53 P.S. § 8505(a) states, in part, that the relief association:

. . . must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

In addition, Article VI, Section A, of the relief association's bylaws states:

Meetings of the members shall be held at 20 Irving Place, Feasterville, PA, on the second Thursday of each month at 7:30 PM or as may from time to time be fixed by the Board of Directors.

Cause: Relief association officials were unaware that maintaining minutes of meetings was required by Act 84 and the relief association's bylaws.

Effect: The failure to maintain minutes of meetings prevented the verification as to whether relief association business was presented before the membership for approval.

Recommendation: We recommend relief association officials maintain a permanent record of all relief association meetings as required by Act 84 and the relief association's bylaws. The minutes should include an adequate record 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.

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – Inadequate Financial Record-Keeping System

Condition: The relief association's financial record-keeping system did not provide effective control over cash receipts, disbursements, and monetary assets, and does not meet the minimum requirements of maintaining financial records established by this department. The following are the noted deficiencies:

- The journals provided at the time of the audit engagement were incomplete because not all disbursements that occurred during the audit period were recorded, none of the receipts received during the audit period were recorded, and a running cash balance was not maintained.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Documentation to support various expenditures was not available for examination at the time of the audit. (See Finding No. 2)

Criteria: Act 84 at 53 P.S. § 8505 (a) states, in part, that the relief association:

. . . must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

In addition, an adequate system of accounting and record keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials were unaware of their various record-keeping responsibilities.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We recommend the relief association establish and maintain a financial record-keeping system that meets the minimum record-keeping requirements of this department. 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.

FEASTERVILLE 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 \$109,478 (fair value) or 25% 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).

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported in Finding Nos. 1 and 2 may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action will not be considered if sufficient documentation is immediately provided to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 406 Finance Building, Harrisburg, PA 17120.

FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2007

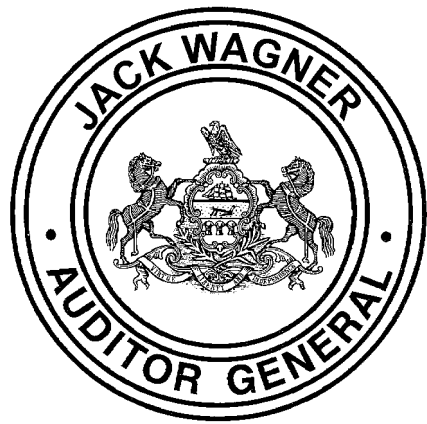
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 22,069
Death benefits	13,000
Relief benefits	3,615
Total Benefit Services	\$ 38,684
Fire Services:	
Equipment purchased	\$ 92,798
Equipment maintenance	22,587
Training expenses	1,630
Total Fire Services	\$ 117,015
Administrative Services:	
Miscellaneous administrative expenses	\$ 762
Total Administrative Services	\$ 762
Other Expenditures:	
Undocumented expenditures	\$ 2,286
Total Other Expenditures	\$ 2,286



FEASTERVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Feasterville Volunteer Firefighters' Relief Association Officers:

Mr. Steve Rymond, President

Mr. Brian Walter, Secretary

Mr. James P. McKeon, Treasurer

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

Ms. Connie Birrane, Secretary
Lower Southampton 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.