



**MCADOO FIRE COMPANY RELIEF ASSOCIATION**

**HEREIN REFERRED TO AS:**

**MCADOO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**SCHUYLKILL COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

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



## CONTENTS

Background.....	1
Letter From the Auditor General .....	3
Status of Prior Finding.....	5
Finding and Recommendation:	
Finding – Inadequate Relief Association Bylaws.....	6
Observation.....	8
Accompanying Expenditure Information .....	9
Report Distribution List.....	11



## 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 McAdoo 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 McAdoo 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>
Kline Township	Schuylkill	\$8,729	\$8,748	\$8,974
McAdoo Borough	Schuylkill	\$5,213	\$5,262	\$5,393

BACKGROUND (Continued)

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

McAdoo Fire Company, Inc.

Mr. Matthew Capulich, President  
MCADOO VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Schuylkill County

We have conducted a compliance audit of the McAdoo 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 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 McAdoo 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 McAdoo Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the McAdoo 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, in all significant respects, the McAdoo Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following finding discussed later in this report. The results of our tests indicated the McAdoo Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$14,110 and an investment balance with a fair value of \$15,935.

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

April 15, 2009

JACK WAGNER  
Auditor General



MCADOO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Inadequate Officer's Bond Coverage

By obtaining an officer's bond policy on June 6, 2006, solely in the relief association's name.

MCADOO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – Inadequate Relief Association Bylaws

Condition: The relief association's bylaws do not accurately describe the various classes of relief association members as required by Act 84. At the time of the audit engagement, a copy of the affiliated fire company's bylaws was provided that makes reference to active, regular, junior, and life members. Officers of the relief association have also referred to these fire company classifications in paying benefits offered by the relief association, but these classes of members have not been defined and established within the relief association's bylaws.

In addition, the relief association did not formally define the discretionary benefits that were being offered to its members. During the audit period, the relief association paid a total of \$800 in death benefits on behalf of eight members of the relief association. Although these expenditures were authorized by Act 84, the types, amounts, and criteria to be met before receiving the benefits were not described in the bylaws or a formal policy approved by the association membership.

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

To provide, either by insurance or by the operation of a beneficial fund, . . . and **to establish criteria which members must meet in order to qualify** as participants in such death benefit fund. (emphasis added)

In addition, Act 84 at 53 P.S. § 8505(b) states:

The constitution or charter shall state the name, the purposes and the form of the organization, **shall designate the class or classes of persons eligible for membership**, and the procedures to be followed in making amendments. (emphasis added)

Furthermore, Act 84 at 53 P.S. § 8505(c) states, in part, that the relief association's bylaws shall include the following provisions:

- Specify the requirements of securing membership, the voting rights of different classes of members, if any, and the conditions under which membership may be terminated.

MCADOO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, 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 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.

Cause: Relief association officials were unaware of the specific bylaws stipulations established by Act 84.

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. In addition, the relief association's failure to formally define the various classes of members and discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. Furthermore, the absence of a bylaw provision and/or a formal policy increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the association.

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 84 and properly authorize the operating procedures of the relief association. Specifically, the relief association should amend its bylaws to formally define the various classes of members and to describe the types of discretionary benefits being offered to the members. 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 and indicated they will take action to comply with the recommendation.

MCADOO 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 \$10,485 (fair value) or 35% 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).

MCADOO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

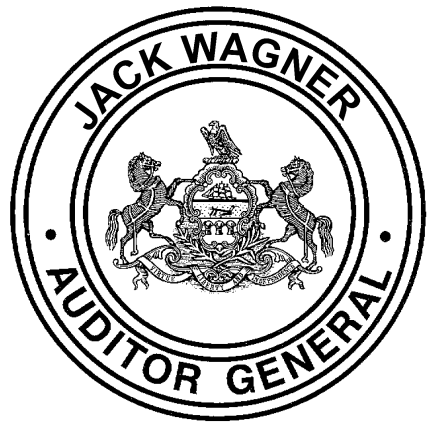
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 12,602
Death benefits	800
Total Benefit Services	\$ 13,402
Fire Services:	
Equipment purchased	\$ 21,172
Equipment maintenance	2,958
Training expenses	1,218
Total Fire Services	\$ 25,348
Administrative Services:	
Officer compensation	\$ 400
Other administrative expenses	30
Total Administrative Services	\$ 430
Total Investments Purchased	\$ 10,000



MCADOO VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

McAdoo Volunteer Firefighters' Relief Association Governing Body:

Mr. Matthew Capulich, President

Mr. Donald Leshko, Vice President

Mr. Lance Borchick, Secretary

Mr. Robert Leshko, Treasurer

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

Ms. Jean Wargo, Secretary  
Kline Township

Ms. Diane Minneci, Secretary  
McAdoo 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).