



**FIREMEN'S UNION AND RELIEF ASSOCIATION OF NORRISTOWN**

**HEREIN REFERRED TO AS:**

**NORRISTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**MONTGOMERY COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2005 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 Norristown 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 Norristown Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Norristown Borough	Montgomery	\$144,839	\$147,373	\$150,917

### BACKGROUND (Continued)

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

Fairmount Fire Company  
Hancock Fire Company  
Humane Fire Company  
Montgomery Hose Fire Company  
Norristown Hose Company

Mr. James Mullane Jr., President  
NORRISTOWN VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Montgomery County

We have conducted a compliance audit of the Norristown 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, 2005 to December 31, 2007. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

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 Norristown 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 Norristown 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, 2005 to December 31, 2007, found, in all significant respects, the Norristown 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 Norristown Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$759,324 and an investment balance with a fair value of \$869,328.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Inadequate Documentation of Mortgages

Finding No. 2 – Insufficient Officer's Bond Coverage

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

July 10, 2008

JACK WAGNER  
Auditor General



NORRISTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Undocumented Expenditures

By providing adequate documentation to determine the validity of the undocumented expenditures that were in the prior audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Norristown Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This issue is further discussed in the following finding noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –  
Inadequate Documentation of Mortgages

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 recommendations and corrective actions noted in this audit report.

NORRISTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Inadequate Documentation of Mortgages

Condition: As cited in the prior two audit reports, the relief association invests its funds through mortgages granted to the relief association members and its affiliated fire companies. During the current audit period, the relief association again could not provide adequate documentation related to the mortgages. Although the relief association provided updated guidelines to reflect the current mortgage program's policies and procedures, the following deficiencies were still noted:

- The guidelines do not include policies related to penalties for late payments and collection procedures for delinquent accounts.
- The relief association could not verify first lien position on the mortgages.
- The relief association did not provide appraisals of the properties mortgaged.

Criteria: Act 84 at 53 P.S. § 8506(c)(1) states, in part:

All, or any part of the funds of any volunteer firefighters' relief association may be invested:

In any form of investment named in the Fiduciaries Act of 1949, as amended, including first mortgages. Such first mortgages insuring repayment of loans by relief associations must provide for a minimum interest payment of three percent and not exceed eighty percent of the appraised value of the real property covered by the mortgage.

In addition, sound business practice dictates that the relief association maintain adequate documentation of mortgages.

Cause: While notified of deficiency in the prior two audit reports, the relief association failed to implement internal controls to ensure that all mortgages are adequately documented and secured.

Effect: Since the relief association officials could not provide documentation of their first lien position or the appraised value of the property, these mortgages may not be considered secured as required by Act 84.

NORRISTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend the relief association adopt the following internal controls related to administration of mortgages.

- Include policies related to penalties for late payments and collection of delinquent accounts in the investment policies/mortgage guidelines.
- Maintain documentation to support first lien position.
- Maintain documentation of property appraisals.

The relief association should also consider instituting a policy governing delinquent mortgage payments and mortgage insurance to ensure outstanding mortgage balances will be collected. 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.

NORRISTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Insufficient Officer's Bond Coverage

Condition: The relief association did not maintain a bond in a sufficient amount to cover the authorized disbursing officer. The relief association's bond coverage was \$500,000; however, as of December 31, 2007, the cash assets totaled \$759,324.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that:

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

Cause: Relief association officials failed to monitor the cash balance to ensure the officer's bond coverage was in compliance with Act 84 provisions.

Effect: As a result of the disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend the relief association ensure that a faithful performance bond adequately covers the disbursing officer, as required by Act 84. This requirement may be accomplished by increasing the officer's bond coverage to an amount greater than the expected maximum balance of cash assets, or by decreasing the cash assets to an amount anticipated to remain below the coverage amount. Relief association officials should monitor the cash balance to ensure that unexpected events affecting current funds do not again result in an insufficient officer's bond coverage. 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.

## NORRISTOWN 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, 2007, the VFRA had \$457,900 (fair value) or 28.1% 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).

NORRISTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
ACCOMPANYING EXPENDITURE INFORMATION  
FOR THE PERIOD JANUARY 1, 2005 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	\$ 51,125
Death benefits	92,800
Tokens of sympathy and goodwill	3,850
Total Benefit Services	<u>\$ 147,775</u>
Fire Services:	
Equipment purchased	\$ 127,688
Equipment maintenance	16,750
Training expenses	50,943
Total Fire Services	<u>\$ 195,381</u>
Administrative Services:	
Officer compensation	\$ 18,000
Rent expenses	6,720
Accounting fees	12,350
Other administrative expenses	8,237
Total Administrative Services	<u>\$ 45,307</u>
Total Investments Purchased	<u>\$ 18,500</u>
Other Expenditures:	
Mortgages escrow expense	\$ 18,332
Total Other Expenditures	<u>\$ 18,332</u>

NORRISTOWN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Norristown Volunteer Firefighters' Relief Association Officers:

Mr. James Mullane Jr., President

Mr. Anthony Barbato, Secretary

Mr. R. Craig Glass Jr., Treasurer

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

Mr. Russel J. Bono, Chief  
Norristown 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).