



**PENNDel-MIDDLETOWN EMERGENCY SQUAD RELIEF ASSOCIATION**

**HEREIN REFERRED TO AS:**

**PENNDel-MIDDLETOWN EMERGENCY SQUAD VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION**

**BUCKS 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 Penn-del-Middletown Emergency Squad 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 Penn-del-Middletown Emergency Squad 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>
Middletown Township	Bucks	\$81,209	\$82,405	\$89,306

BACKGROUND (Continued)

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

Penndel-Middletown Emergency Squad

Mr. Brent McLaughlin, President  
PENNDel-MIDDLETOWN EMERGENCY SQUAD  
VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
Bucks County

We have conducted a compliance audit of the PennDel-Middletown Emergency Squad 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 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 PennDel-Middletown Emergency Squad 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 PennDel-Middletown Emergency Squad 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 Penn-del-Middletown Emergency Squad 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 Penn-del-Middletown Emergency Squad Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$114,904 and an investment balance with a fair value of \$1,096,924.

#### Finding – Unauthorized Expenditures

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 Penn-del-Middletown Emergency Squad Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

March 17, 2008

JACK WAGNER  
Auditor General



PENNDel-MIDDLETOWN EMERGENCY SQUAD VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Penndel-Middletown Emergency Squad Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Insufficient Officer's Bond Coverage

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

PENNDDEL-MIDDLETOWN EMERGENCY SQUAD VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – Unauthorized Expenditures

Condition: The relief association expended funds for the following items, which are not authorized by Act 84:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/02/06	461	Spineboards for use on ambulance	\$ 2,757
10/09/07	539	Paramedic to attend EMS conference	140
10/14/07	543	Per diem for paramedic to attend EMS conference	135
Total			<u>\$ 3,032</u>

In addition, subsequent to the period under review, on January 31, 2008, the relief association paid \$28,326 toward the purchase of an ambulance for a total of \$31,358 in unauthorized expenditures.

Criteria: Act 84 at 53 P.S. § 8506(e)(10 and 11) states:

The funds of any volunteer firefighters' relief association may be spent:

- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.
- (11) To purchase safeguards for preserving life, health, and safety to volunteer firefighters, so as to ensure their availability to participate in the volunteer fire service.

Since the Department of the Auditor General is legislatively prohibited from giving pre-audit advice, an interagency agreement with the Department of Community and Economic Development (DCED) had been established whereby the DCED provided interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." The type of expenditures stated in the condition above have been determined DCED to not qualify as authorized expenditures under Act 84.

Cause: Relief association officials were unaware that the aforementioned expenditures were not authorized by Act 84.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 84.

PENNDel-MIDDLETOWN EMERGENCY SQUAD VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – (Continued)

However, subsequent to the period under review, on July 30, 2008, the relief association received reimbursement in the amount of \$31,358 for the unauthorized expenditures in question.

Recommendation: We recommend the relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) to aid them in determining the propriety of 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 and indicated they would take action to comply with the commendation.

PENNDel-MIDDLETOWN EMERGENCY SQUAD 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 \$1,096,924 (fair value) or 91% 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.

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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).

PENNDel-MIDDLETOWN EMERGENCY SQUAD VOLUNTEER  
 FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2007

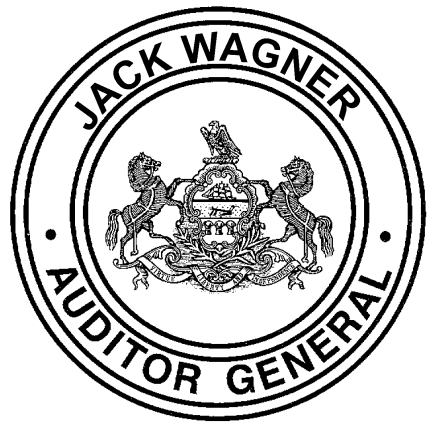
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 14,509
Death benefits	10,000
Relief benefits	1,435
Tokens of sympathy and goodwill	2,381
Total Benefit Services	\$ 28,325
Fire Services:	
Equipment purchased	\$ 133,285
Equipment maintenance	7,633
Training expenses	18,181
Total Fire Services	\$ 159,099
Administrative Services:	
Miscellaneous administrative expenses	\$ 6,712
Total Administrative Services	\$ 6,712
Total Investments Purchased	\$ 144,000



PENNDDEL-MIDDLETOWN EMERGENCY SQUAD VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Penndel-Middletown Emergency Squad Volunteer Firefighters' Relief Association Officers:

Mr. Brent McLaughlin, President

Ms. Doris M. Bower, Secretary

Ms. Nancy J. Blank, Treasurer

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

Ms. Diane Ellis-Marseglia, Secretary  
Middletown 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).