



**THE HAVERFORD TOWNSHIP VOLUNTEER FIREFIGHTERS RELIEF
ASSOCIATION**

HEREIN REFERRED TO AS:

HAVERFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

DELAWARE 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 Haverford 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 Haverford Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>
Haverford Township	Delaware	\$393,603	\$406,689

BACKGROUND (Continued)

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

Bon Air Fire Company
Brookline Fire Company
Llanerch Fire Company
Manoa Fire Company
Oakmont Fire Company

Mr. Robert McGoldrick, President
HAVERFORD VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Haverford 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 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 Haverford 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 Haverford 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 Haverford 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 Haverford Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$190,747 and an investment balance with a fair value of \$2,171,097.

Finding – Noncompliance With prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

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

November 5, 2008

JACK WAGNER
Auditor General

HAVERFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Haverford Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This issue is further discussed in the following finding noted in the Finding and Recommendation 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 recommendation and corrective action noted in this audit report.

HAVERFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the prior audit report, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. During the current audit, the relief association provided five separate rosters of equipment owned by the relief association and located at the five affiliated fire companies. These separate rosters were compiled by each respective affiliated fire company rather than the relief association. Some of the rosters of equipment prepared by the affiliated fire companies lacked information required by this department in order for the relief association to properly account for its equipment purchases. The information not recorded on some of the rosters included serial numbers, location of equipment, and unit costs. As a result, we could not trace nine equipment purchases tested on the equipment rosters. While it is not necessary for each of the respective fire companies and the relief association to maintain separate records, it is the relief association's responsibility to maintain sufficient records to be able to determine that all equipment purchased has been recorded and accounted for. In addition, there was no indication that the relief association performed an annual inventory of its equipment to account for the relief association's fixed assets.

Criteria: The relief association's cumulative equipment roster should be maintained by the relief association with all equipment purchases being recorded by the relief association at the point of purchase rather than relying on each independent affiliated fire company to maintain accurate records of equipment purchased. This would also ensure consistency of information included on the equipment roster.

- 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.

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.

HAVERFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: Since the relief association had relied upon each affiliated fire company to maintain equipment rosters, the relief association did not have sufficient records to adequately account for all relief association equipment purchases. 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.

HAVERFORD 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 \$1,574,563 (fair value) or 67% 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.

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).

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

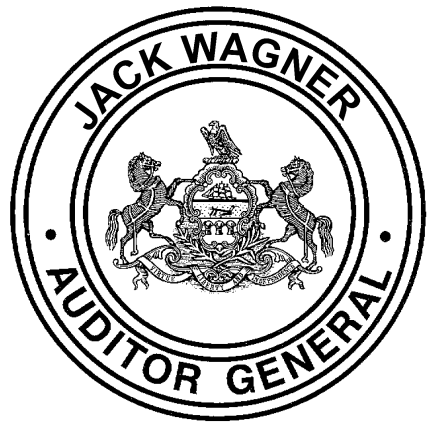
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 479,733
Death benefits	13,000
Tokens of sympathy and goodwill	700
Total Benefit Services	\$ 493,433
Fire Services:	
Equipment purchased	\$ 193,199
Equipment maintenance	19,471
Training expenses	2,730
Fire prevention materials	1,867
Total Fire Services	\$ 217,267
Administrative Services:	
Officer compensation	\$ 10,000
Other administrative expenses	9,175
Total Administrative Services	\$ 19,175
Total Investments Purchased	\$ 640,877
Other Expenditures:	
Brokerage fees	\$ 22,530
Total Other Expenditures	\$ 22,530



HAVERFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Haverford Volunteer Firefighters' Relief Association Officers:

Mr. Robert McGoldrick, President

Mr. Andrew Sivak, Secretary

Mr. James F. Chupein Sr., Treasurer

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

Mr. Lawrence J. Gentile, Secretary
Haverford 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.