



**WEST GROVE FIREMAN'S RELIEF ASSOCIATION**

**HEREIN REFERRED TO AS:**

**WEST GROVE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**CHESTER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2004 TO DECEMBER 31, 2006**



## CONTENTS

Background.....	1
Letter From the Auditor General .....	3
Status of Prior Finding.....	5
Findings and Recommendations:	
Finding No. 1 – Unauthorized Expenditures .....	6
Finding No. 2 – Undocumented Expenditures.....	9
Finding No. 3 – Insufficient Officer's Bond Coverage.....	11
Finding No. 4 – Failure to Maintain a Federal Tax Identification Number.....	12
Observation.....	13
Accompanying Expenditure Information .....	14
Report Distribution List.....	15



## 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 West Grove 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 West Grove Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

BACKGROUND (Continued)

<u>Municipality</u>	<u>County</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Franklin Township	Chester	\$ 26,432	\$29,855	\$30,558
London Britain Township	Chester	\$ 17,377	\$19,601	\$20,217
London Grove Township	Chester	\$ 23,244	\$26,583	\$28,038
New London Township	Chester	\$ 32,086	\$37,312	\$38,997
Penn Township	Chester	\$ 25,191	\$30,333	\$32,537
West Grove Borough	Chester	\$ 13,672	\$15,314	\$15,413

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

West Grove Fire Company, Inc.

Mr. Steve Flegal, President  
WEST GROVE VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Chester County

We have conducted a compliance audit of the West Grove 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, 2004 to December 31, 2006. 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.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to volunteer firefighters' relief associations and to audit volunteer firefighters' relief associations having received such aid. An administrative unit of the Department's Comptroller's Office that is not involved in the audit process calculates state aid and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the West Grove 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 West Grove Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2006, with the custodians of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our audit found that for the period January 1, 2004 to December 31, 2006, the West Grove Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2006, had a cash balance of \$217,100 and an investment balance with a fair value of \$144,569. Additionally, the results of our tests indicated that, in all significant respects, the West Grove Volunteer Firefighters' Relief Association received and expended state aid and accumulated relief association funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report:

Finding No. 1 – Unauthorized Expenditures

Finding No. 2 – Undocumented Expenditures

Finding No. 3 – Insufficient Officer's Bond Coverage

Finding No. 4 – Failure to Maintain a Federal Tax Identification Number

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

June 1, 2007

JACK WAGNER  
Auditor General



WEST GROVE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT RECOMMENDATION

Unauthorized Expenditures

The relief association has complied with the prior audit recommendation by receiving reimbursement on September 14, 2004, in the amount of \$1,663 for organized sports and activity insurance premiums which were considered unauthorized expenditures.

However, the relief association continued to pay the insurance premiums for 2004, 2005, and 2006. The relief association was reimbursed for the 2004 premium; however, the 2005 and 2006 premiums have not been reimbursed and are discussed further in Finding No. 1 of this report.

WEST GROVE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

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

Date	Check No.	Description	Amount
04/26/04	2276	Subsistence in excess of IRS allowance	\$ 89
04/26/04	2274	Smoke alarms for public distribution	40
06/02/04	2298	Subsistence in excess of IRS allowance	42
06/04/04	2277	Subsistence in excess of IRS allowance	35
09/13/04	2330	Subsistence in excess of IRS allowance	88
03/28/05	2390	Organized sports and activity insurance premium	815
06/01/05	2430	Subsistence in excess of IRS allowance	254
08/15/05	2456	Seminar expense for non-members	963
09/07/05	2463	Subsistence in excess of IRS allowance	120
03/27/06	2534	Organized sports and activity insurance premium	815
04/17/06	2542	Subsistence in excess of IRS allowance	69
04/17/06	2543	Subsistence in excess of IRS allowance	36
05/01/06	2547	College accredited course tuition and expenses	1,291
05/15/06	2552	Subsistence in excess of IRS allowance	86
07/31/06	2589	Subsistence in excess of IRS allowance	38
09/25/06	2607	Subsistence in excess of IRS allowance	157
Total			\$ 4,938

Criteria: Act 84 at 53 P.S. § 8506(e)(2, 10 and 16) states:

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

- (2) To purchase contracts of insurance which shall at the least afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and which may also provide in the order named, (i) for payments to the widow or other dependents of a member in the event of his death, (ii) for protection of active firefighters against disease, (iii) for the replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches, and the like, where such devices have been lost or damaged while the owner was engaged in the fire service or where the need for such devices arises because of functional impairment attributable to participation in the fire service, (iv) for the repair or replacement if necessary of articles of clothing or pocket pagers damaged in the course of participation in the fire service, and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

WEST GROVE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria (Continued)

(10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.

(16) To purchase fire prevention materials for public distribution.

The position of this department with regard to the permissibility of expenses incurred for members to attend authorized training courses, conventions, and conferences is published in the department's MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS. Relief association funds may be expended to pay for lodging, travel, and subsistence expenses. Expenses for subsistence, such as meals, may be reimbursed based on actual receipts or by the per-diem rate established by the Volunteer Firefighters' Relief Association bylaws. However, the reimbursement may not exceed the Internal Revenue Service (IRS) subsistence allowance. Expenses associated with training should be addressed in the relief association's bylaws or policy manuals to make sure the membership of the association understands the reimbursement criteria.

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." College accredited classes consisting of advanced coursework in preparation for a career professional firefighter's occupation, or closely related occupation licenses, have been deemed by DCED to not qualify under Act 84. In addition, the DCED has deemed that publicly distributed smoke alarms, organized sport and activity insurance premiums, and training provided for relief association nonmembers are not considered authorized by Act 84.

Cause: Relief association officials were unaware that expenditures for the subsistence in excess of the IRS allowance, smoke alarms for public distribution, seminar expenses for non-members, and college accredited course expenses were not considered authorized by Act 84. Relief association officials were informed in the prior audit that the organized sports insurance premiums were not considered authorized by Act 84 but inadvertently paid for the same premiums during the current financial period.

WEST GROVE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

However, subsequent to the audit exit conference, on July 12, 2007, the relief association was reimbursed \$4,938 for the above unauthorized expenditures.

Recommendation: We recommend the relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) and the guidance provided in the Auditor General's publication MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS to aid them in determining the propriety of future expenditures.

Management's Response: Relief association management neither agreed nor disagreed with the finding as presented at the audit exit conference.

WEST GROVE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

Date	Check No.	Amount
08/23/04	2325	\$ 140
08/23/04	2326	1,500
09/13/04	2334	944
09/13/04	2335	493
06/27/05	2445	393
08/28/06	2599	606
11/13/06	2622	389
12/08/06	2634	522
	Total	\$ 4,987

The documentation provided by the relief association during the current audit to support the above expenditures indicates that these expenditures may be related to training expenses incurred by the relief association. However, the documentation available for review was not deemed adequate to determine that the expenditures were made in accordance with Act 84. As such, the above expenditures are being considered as undocumented expenditures.

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.

The position of this department with regard to the documentation required to support expenditures incurred for members to attend authorized training courses, conventions, and conferences is published in the department's MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

WEST GROVE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

The following supporting documentation must be kept by the relief association to verify the propriety of these expenditures:

- Minutes of the association's meetings clearly stating the approval for the expenditure of the funds and the members attending.
- A copy of the registration or other documentation identifying the specific costs.
- Receipts for lodging and transportation.
- The amount of reimbursement for subsistence (meals) identified in the bylaws, or the payment verified through minutes and actual receipts.
- Training certificates or written proof of training completion to verify attendance.

Without adequate supporting documentation, such as invoices, course registration, and/or training certificates, where applicable, 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 adequate supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure adequate supporting documentation is maintained for all expenditures.

Effect: Lack of adequate supporting documentation, such as invoices, course registrations, and/or training certificates, where applicable, made it impossible to determine the expenditures were made in accordance with Act 84.

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices, course registration, and/or training certificates, where applicable, to determine the validity of the expenditures or that the relief association be reimbursed \$4,987 for the undocumented expenditures. We also recommend that the relief association officials become familiar with the documentation guidance provided in the Auditor General's publication MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS and maintain such supporting documentation for all future expenditures.

Management's Response: Relief association management neither agreed nor disagreed with the finding as presented at the audit exit conference.

WEST GROVE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – 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 \$200,000; however, as of December 31, 2006, the cash assets totaled \$217,100.

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.

In addition, Article VIII, Section D, of the relief association's bylaws states:

The Treasurer shall be bonded by corporate surety for an amount at least as great as the maximum cash balance in current funds of the Association at any time during the fiscal year.

Cause: Relief association officials failed to monitor their officer's bond coverage to ensure it was in compliance with Act 84 and the relief association's bylaws.

Effect: As a result of the disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets are 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 and the relief association's bylaws. 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.

WEST GROVE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Maintain a Federal Tax Identification Number

Condition: The volunteer firefighters' relief association failed to comply with the Tax Equity and Fiscal Responsibility Act by not maintaining a federal tax identification number. The relief association is currently using an inactive federal tax identification number.

Criteria: All businesses, both profit and nonprofit, are required to obtain a federal tax identification number and provide this number to any financial institution where funds are earning interest. If their tax identification number is not provided, the financial institution is required to withhold 31 percent of interest earned and transmit these funds to the Internal Revenue Service, representing federal income taxes.

Cause: The relief association was unaware of the necessity to reactivate its federal tax identification number.

Effect: Failure to comply with the Tax Equity and Fiscal Responsibility Act could cause the relief association to be penalized by the Internal Revenue Service, resulting in the loss of funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We recommend the relief association immediately reactivate or reapply for its own federal tax identification number through the Internal Revenue Service. If the federal tax identification number changes, the relief association must furnish the new number to its financial institutions. The relief association should also consider applying to the Internal Revenue Service for tax exempt status as a nonprofit corporation under Internal Revenue Code 501(c). For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management neither agreed nor disagreed with the finding.



## WEST GROVE 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.

The VFRA had \$144,569 (fair value) or 40% of the VFRA's cash and investments in stocks.

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).

WEST GROVE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2006

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	\$ 31,534
Total Benefit Services	\$ 31,534
Fire Services:	
Equipment purchased	\$ 233,964
Equipment maintenance	42,083
Training expenses	65,333
Fire prevention materials	8,803
Total Fire Services	\$ 350,183
Administrative Services:	
Miscellaneous administrative expenses	\$ 3,633
Total Administrative Services	\$ 3,633
Other Expenditures:	
Principal payments on loan	\$ 16,500
Interest payments on loan	391
Undocumented expenditures	4,987
Total Other Expenditures	\$ 21,878

WEST GROVE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

West Grove Volunteer Firefighters' Relief Association Officers:

Mr. Steve Flegal, President

Ms. Carol Eichinger, Secretary

Mr. Scott McLimans, Treasurer

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

Mr. Stephen J. Ross, Secretary  
Franklin Township

Ms. Carolyn Matalon, Secretary  
London Britain Township

Ms. Marilyn Venegas, Secretary  
London Grove Township

Ms. Trish Fagan, Secretary  
New London Township

Mr. W. A. Finnen, Secretary  
Penn Township

Ms. Sharon B. Nesbitt, Secretary  
West Grove 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).