

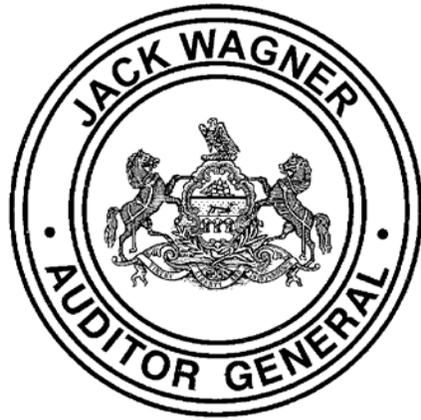
**THE CAMP HILL FIRE COMPANY NO. 1 FIREMAN'S RELIEF ASSOCIATION**

**CUMBERLAND COUNTY**

**COMPLIANCE AUDIT REPORT**

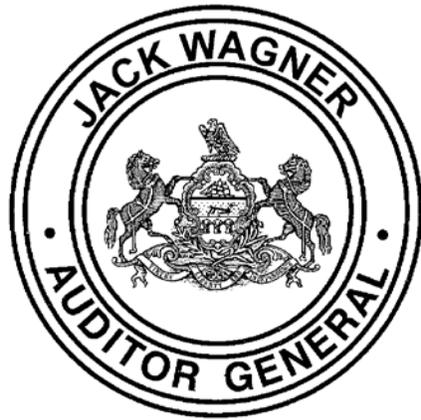
**FOR THE PERIOD**

**JANUARY 1, 2008 TO DECEMBER 31, 2009**



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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, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, 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 Camp Hill Fire Company No. 1 Fireman's Relief Association, herein referred to as Camp Hill 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 118 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 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, 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 Camp Hill Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>
Camp Hill Borough	Cumberland	\$63,801	\$57,387

BACKGROUND (Continued)

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

Camp Hill Fire Company No. 1

Mr. Joseph R. Heffron, President  
CAMP HILL VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Cumberland County

We have conducted a compliance audit of the Camp Hill 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, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2008 to December 31, 2009.

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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Camp Hill Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Camp Hill Volunteer Firefighters' Relief Association's recorded financial transactions, tests

of the physical existence of inventories, interviews of selected officials and direct confirmation of the Camp Hill Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. 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 objective.

The results of our audit, for the period January 1, 2008 to December 31, 2009, found the Camp Hill Volunteer Firefighters' Relief Association, in all significant respects, received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the finding listed below and discussed later in this report. The results of our tests also indicated the Camp Hill Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$69,982 and an investment balance with a fair value of \$679,532.

#### Finding – Unauthorized Expenditures

We also noted another matter that has been included in the following observation and detailed in the Observation section of this report.

#### Observation – Diversification of Investments

The contents of this report were discussed with the management of the Camp Hill Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

October 28, 2010

JACK WAGNER  
Auditor General

CAMP HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – Unauthorized Expenditures

Condition: While notified of this condition through a verbal observation during our prior audit, the relief association expended funds for intensive care unit insurance, which is not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
07/17/09	1632	Intensive care unit insurance	\$ 31
09/25/09	1657	Intensive care unit insurance	2,997
09/28/09	1658	Intensive care unit insurance	371
10/27/09	1670	Intensive care unit insurance	340
11/27/09	1671	Intensive care unit insurance	75
Total Current Period			<u>\$ 3,814</u>

In addition, subsequent to the audit period, the relief association expended funds for intensive care unit insurance, which is not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
02/12/10	1725	Intensive care unit insurance	\$ 146
03/26/10	1738	Intensive care unit insurance	68
09/09/10	1799	Intensive care unit insurance	371
09/20/10	1810	Intensive care unit insurance	4,089
Total Subsequent Period			<u>\$ 4,674</u>
Total Current and Subsequent			<u><u>\$ 8,488</u></u>

This intensive care unit insurance provides coverage to firefighters who sustain injuries while performing fire related and non fire related activities.

CAMP HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(2) states:

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

- (2) To purchase contracts of insurance which, at a minimum, shall 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 may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost 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.

Because 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) has been established whereby the DCED provides interpretation of Act 118. Costs associated with the purchase of this type of intensive care unit insurance have been deemed by DCED to not qualify as authorized expenditures, as this insurance also provides coverage for injuries suffered during the performance of non fire related activities; therefore, these costs are not authorized under Act 118.

Cause: Even though relief association officials were made aware, via our verbal cite issued during the prior audit, that the costs associated with the purchase of this intensive care unit insurance would constitute unauthorized expenditures, relief association officials continued to purchase this type of insurance.

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 118.

CAMP HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend the relief association either amend the intensive care unit insurance policy to extend coverage only to firefighters who sustain injuries while performing fire related activities or that the relief association discontinue paying for this type of intensive care unit insurance. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management did not agree with the finding as presented at the audit exit conference, stating: "We accept and appreciate the finding presented as a result of our audit; however, we will do further research on this finding and provide a response to the Auditor General."

Auditor's Conclusion: As these costs were deemed unauthorized by DCED, our finding will stand as presented.

CAMP HILL 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, 2009, the VFRA had \$244,659 (fair value) or 33% 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).

CAMP HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2009

Act 118 at 35 Pa.C.S. § 7412 states: 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. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 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.

Furthermore, 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	\$ 74,488
Death benefits	1,000
Relief benefits	3,609
Total Benefit Services	<u>\$ 79,097</u>
Fire Services:	
Equipment purchased	\$ 81,393
Equipment maintenance	47,441
Training expenses	11,636
Total Fire Services	<u>\$ 140,470</u>
Administrative Services:	
Officer compensation	\$ 3,594
Other administrative expenses	19,448
Total Administrative Services	<u>\$ 23,042</u>



CAMP HILL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Camp Hill Volunteer Firefighters' Relief Association Governing Body:

Mr. Joseph R. Heffron, President

Mr. Scott M. Dorsey, Vice President

Mr. Frank X. Schneider, Secretary

Mr. Richard A. Chambers, Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Anne Shambaugh, Secretary  
Camp Hill 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).