

**THE POTTSVILLE FIREMEN'S RELIEF TRUST ASSOCIATION
OF POTTSVILLE**

SCHUYLKILL COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2010

Released March 2013



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SCHUYLKILL COUNTY
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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 Pottsville Firemen's Relief Trust Association of Pottsville, herein referred to as Pottsville 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.

BACKGROUND (Continued)

The Pottsville Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

| <u>Municipality</u> | <u>County</u> | <u>2009</u> | <u>2010</u> |
|------------------------|---------------|-------------|-------------|
| Mechanicsville Borough | Schuylkill | * | \$ 1,318** |
| North Manheim Township | Schuylkill | \$ 3,796 | \$ 4,273 |
| City of Pottsville | Schuylkill | \$70,236 | \$79,055 |

* In 2009, Mechanicsville Borough did not give state aid to Pottsville Volunteer Firefighters' Relief Association. The municipality has full discretion in distributing the state aid to relief associations of its choice. Most distribution decisions are based on fire protection services provided by a particular fire service in the municipality.

** The 2010 state aid check from Mechanicsville Borough, in the amount of \$1,318, was not distributed by the municipality until January 21, 2011, subsequent to the audit period. (Refer to the finding in the Finding and Recommendation section of this report).

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

- American Hose Company No. 2
- Good Intent Fire Company No. 1
- Good Will Fire Company No. 4
- Humane Fire Company No. 1
- Phoenix Fire Engine Company No. 2
- West End Hose Company No. 7
- Yorkville Hose and Fire Company No. 1



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. John M. Messner, Jr., President
POTTSVILLE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Schuylkill County

We have conducted a compliance audit of the Pottsville 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, 2009 to December 31, 2010.

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 Pottsville 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 Pottsville Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Pottsville Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2010, 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, 2009 to December 31, 2010, found the Pottsville 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 Pottsville Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$93,169 and an investment balance with a fair value of \$694,114.

Finding – Untimely Deposit of State Aid

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 Pottsville Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

August 15, 2011

EUGENE A. DEPASQUALE
Auditor General

POTTSVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Untimely Deposit of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2010 state aid allocation it received from Mechanicsville Borough, in the amount of \$1,318, until January 21, 2011.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Cause: The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 20, 2010, who forwarded this state aid to the volunteer firefighters' relief association on November 15, 2010, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Upon receipt of the state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

According to the relief association treasurer, the 2010 state aid check was forwarded to the bank in December 2010, for deposit in the relief association's trust account and not credited to the relief association until January 21, 2011. A reason for the untimely deposit was not known by the relief association treasurer.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. 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.

POTTSVILLE 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, 2010, the VFRA had \$404,246 (fair value) or 51% 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.

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).

POTTSVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2010

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 | \$ 3,759 |
| Death benefits | 58,000 |
| Relief benefits | 364 |
| Accrued interest | 492 |
| Total Benefit Services | \$ 62,615 |
| | |
| Fire Services: | |
| Equipment purchased | \$ 71,189 |
| Equipment maintenance | 23,177 |
| Training expenses | 7,788 |
| Total Fire Services | \$ 102,154 |
| | |
| Administrative Services: | |
| Officer compensation | \$ 6,000 |
| Other administrative expenses | 12,925 |
| Total Administrative Services | \$ 18,925 |
| | |
| Total Investments Purchased: | \$ 676,646 |



POTTSVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Pottsville Volunteer Firefighters' Relief Association Governing Body:

Mr. John M. Messner, Jr., President

Mr. Jason G. Witmier, Vice President

Mr. Gary W. Witmier, Secretary

Mr. Joseph F. Spotts, III, Treasurer

Mr. Michael Stank, Trustee

Mr. Kurt Shelhamer, Trustee

Mr. Kevin Sibbett, Trustee

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report.

Ms. Beverly Riotto, Secretary
Mechanicsville Borough

Ms. Barbara G. Miller, Secretary
North Manheim Township

Ms. Julie Rescorla, City Clerk
City of Pottsville

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.