



**RELIEF FUND ASSOCIATION OF THE RACCOON TOWNSHIP INDEPENDENT  
VOLUNTEER FIRE DEPARTMENT NO. 1 OF THE COUNTY OF BEAVER,  
STATE OF PENNSYLVANIA**

**BEAVER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

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



## CONTENTS

|   |    |
|---|----|
| Background.....   | 1  |
| Letter From the Auditor General .....   | 3  |
| Status of Prior Findings .....  | 5  |
| Findings and Recommendations:   |    |
| Finding No. 1 – Inadequate Financial Record-Keeping System.....                     | 6  |
| Finding No. 2 – Failure to Maintain a Complete and Accurate Membership Roster ..... | 7  |
| Observation.....  | 8  |
| Accompanying Expenditure Information .....  | 9  |
| Report Distribution List .....  | 11 |



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 Relief Fund Association of the Raccoon Township Independent Volunteer Fire Department No. 1 of the County of Beaver, State of Pennsylvania, herein referred to as Raccoon Township 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 Raccoon Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

| <u>Municipality</u> | <u>County</u> | <u>2008</u> | <u>2009</u> |
|---------------------|---------------|-------------|-------------|
| Raccoon Township    | Beaver        | \$19,923    | \$17,707    |

BACKGROUND (Continued)

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

Raccoon Township Independent Volunteer Fire Department No. 1

Mr. Robert E. Kelly, President  
RACCOON TOWNSHIP VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Beaver County

We have conducted a compliance audit of the Raccoon Township 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, 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 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 findings 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 Raccoon Township 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 those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Raccoon Township Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Raccoon Township 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 objectives. 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 objectives.

The results of our audit for the period January 1, 2008 to December 31, 2009, found, in all significant respects, the Raccoon Township Volunteer Firefighters' Relief Association took appropriate corrective action to address the findings contained in our prior audit report and received and expended state aid and accumulated funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed later in this report. The results of our tests also indicated the Raccoon Township Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2009, had a cash balance of \$56,285 and an investment balance with a fair value of \$62,800.

Finding No. 1 – Inadequate Financial Record-Keeping System

Finding No. 2 – Failure to Maintain a Complete and Accurate Membership 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 Raccoon Township Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

April 13, 2010

JACK WAGNER  
Auditor General

RACCOON TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Raccoon Township Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Unauthorized Expenditure

By receiving reimbursement from the Raccoon Township Independent Volunteer Fire Department No. 1, in the amount of \$5,629, for the unauthorized expenditure made in the prior audit period. In addition, we did not detect any additional unauthorized expenditures during the current audit period.

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative inventory roster of all equipment owned.

- Undocumented Expenditure

By receiving reimbursement from the Raccoon Township Independent Volunteer Fire Department No. 1, in the amount of \$282, for the undocumented expenditure that was made in the prior audit period. In addition, we did not detect any additional undocumented expenditures during the current audit period.

RACCOON TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Financial Record-Keeping System

Condition: The relief association's financial record-keeping system did not provide effective control over cash receipts, disbursements, and monetary assets, and does not meet the minimum requirements of maintaining financial records established by this department. The following are the noted deficiencies:

- A journal was maintained to record the receipts and disbursements of the relief association; however, it was not complete and correct;
- Ledgers were not utilized to record the transactions of the relief association accounts; and
- Financial statements were not maintained or provided to the auditors.

Criteria: Act 84 at 53 P.S. § 8505 (a) states, in part, that the relief association:

. . . must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

In addition, an adequate system of accounting and record keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials were unaware of their various record-keeping responsibilities.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We recommend the relief association establish and maintain a financial record-keeping system that meets the minimum record-keeping requirements of this department. 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.

RACCOON TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Maintain a Complete and Accurate Membership Roster

Condition: The relief association officials did maintain a roster of relief association members; however, the roster lacked members' addresses and membership classification.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Name of each member;
- Member's mailing address;
- Date of birth;
- Date of membership; and
- Membership classification.

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Based on our review of prior year membership rosters, relief association officials were aware that they should maintain a comprehensive roster of relief association members. However, during the current audit period, relief association officials failed to maintain a complete and accurate membership roster.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

RACCOON TOWNSHIP 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 \$62,800 (fair value) or 53% 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.

---

<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).

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

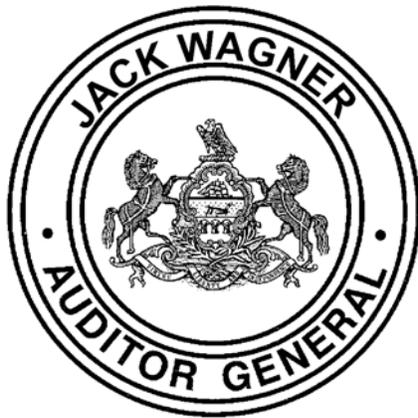
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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              | \$ 3,850  |
| Tokens of sympathy and goodwill | 64        |
| Total Benefit Services          | \$ 3,914  |
|                                 |           |
| Fire Services:                  |           |
| Equipment purchased             | \$ 27,305 |
| Equipment maintenance           | 1,587     |
| Training expenses               | 615       |
| Total Fire Services             | \$ 29,507 |



RACCOON TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Raccoon Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Robert E. Kelly, President

Mr. Gary Sinclair, Vice President

Mr. Jerry W. McElhaney, Secretary

Mr. Christopher M. Arington, Treasurer

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

Ms. Janice R. Mikoloski, Secretary  
Raccoon 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).