

**THE LOCK HAVEN FIREMAN'S RELIEF ASSOCIATION OF THE STATE OF
PENNSYLVANIA**

HEREIN REFERRED TO AS:

LOCK HAVEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

CLINTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 TO DECEMBER 31, 2008



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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 Lock Haven 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.

BACKGROUND (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Allison Township	Clinton	\$ 1,211*	\$ 1,247*	\$ 1,263
City of Lock Haven	Clinton	\$41,290	\$41,940	\$42,855

* The 2006 and 2007 state aid allocations from Allison Township were not deposited by the relief association until 2009, as further discussed in Finding No. 1 contained in this report.

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

Citizens Hose Company
Hand In Hand Hose Company
Hope Hose Company

Mr. William J. Steele, President
LOCK HAVEN VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Clinton County

We have conducted a compliance audit of the Lock Haven 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, 2008.

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 Lock Haven 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 Lock Haven Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2008, 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, 2008, found, in all significant respects, the Lock Haven 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 findings discussed later in this report. The results of our tests indicated the Lock Haven Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$108,254 and an investment balance with a fair value of \$602,426.

Finding No. 1 – Failure to Deposit State Aid

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Insufficient Officer's Bond Coverage

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

March 20, 2009

JACK WAGNER
Auditor General

LOCK HAVEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Inappropriate Presigning of Blank Checks

By prohibiting the presigning of blank checks

- Unauthorized Expenditure

By receiving reimbursement on August 1, 2006, in the amount of \$119, for the unauthorized expenditure made in the prior audit period. In addition, the relief association did not make any unauthorized expenditures during the current audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Lock Haven Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This issue is further discussed in the following finding noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Insufficient Officer's Bond Coverage

We are concerned with the volunteer firefighters' relief association's failure to correct a previously reported audit finding. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

LOCK HAVEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure to Deposit State Aid

Condition: During the current audit, we detected that the Lock Haven Volunteer Firefighters' Relief Association did not deposit its 2006 and 2007 state aid allocations from Allison Township. After bringing this matter to the relief association's attention during the current audit, the relief association requested the state aid from the municipality who then requested replacement checks from the Commonwealth of Pennsylvania because the original checks could not be located by the municipality. Upon receipt of the replacement checks from the Commonwealth, the municipality then prepared replacement municipal checks issued to the relief association in the amount of \$1,210 and \$1,247 which were deposited into the relief association's account on March 19, 2009 and May 4, 2009, respectively.

Criteria: The foreign fire insurance tax allocations were originally distributed by the Commonwealth of Pennsylvania to the Allison Township municipal treasurer on September 20, 2006 and September 20, 2007. Upon receipt of the funds, the municipality is to forward the state aid to the volunteer firefighters' relief association 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 allocations from the municipality, the relief association should ensure the funds are deposited in a timely manner.

Prudent business practice dictates that if the relief association or municipality does not timely receive these funds, it should have procedures in place to promptly contact the appropriate government agency in writing to request that the funds be timely forwarded.

Cause: The relief association neglected to establish internal control procedures to ensure that all income be received, recorded, and deposited in a timely manner.

Effect: As a result of the untimely deposits, the relief association was unable to use the funds for general operating expenses or for investment purposes. In addition, the failure to timely deposit receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend the relief association and municipal officials adopt internal control procedures to ensure the timely deposit of all income received. Such procedures should involve written communication with the appropriate government agency when funds are not timely received. A copy of this report is being furnished to the municipal officials of Allison Township so they are aware of the circumstances regarding these untimely deposits. 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.

LOCK HAVEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Insufficient Officer's Bond Coverage

Condition: As cited in the prior audit report, the relief association did not maintain a bond in a sufficient amount to cover the authorized disbursing officer. After bringing this matter to the relief association's attention, the relief association did increase its bond coverage to \$100,000, effective January 13, 2008. However, during the current audit period, the officer's bond coverage was again not maintained in a sufficient amount to cover the balance of cash assets. As of December 31, 2008, the relief association's bond coverage was \$100,000 while the cash assets totaled \$108,254.

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.

Cause: While notified of this condition in the prior audit report, relief association officials neglected to monitor the cash balance to ensure the officer's bond coverage was in compliance with the bonding requirements of Act 84.

Effect: As a result of the disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We again recommend the relief association ensure that a faithful performance bond adequately covers the disbursing officer, as required by Act 84. 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.

LOCK HAVEN 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, 2008, the VFRA had \$394,585 (fair value) or 56% 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).

LOCK HAVEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

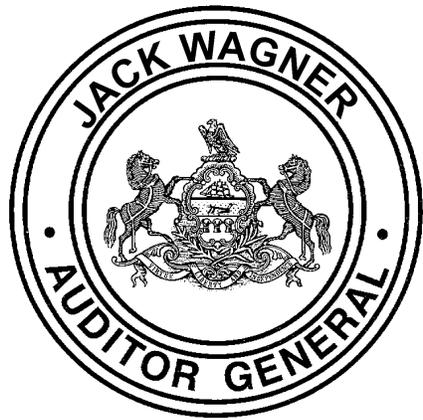
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 12,028
Death benefits	233,000
Total Benefit Services	\$ 245,028
Fire Services:	
Equipment purchased	\$ 199,671
Total Fire Services	\$ 199,671
Administrative Services:	
Officer compensation	\$ 1,750
Other administrative expenses	475
Total Administrative Services	\$ 2,225
Total Investments Purchased	\$ 132,000



LOCK HAVEN VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Lock Haven Volunteer Firefighters' Relief Association Officers:

Mr. William J. Steele, President

Mr. David L. Bardo, Secretary

Mr. Robert H. Nevins, Treasurer

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

Ms. Marion J. McDermit, Secretary
Allison Township

Mr. Richard W. Marcinkevage, City Clerk
City of Lock Haven

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.