



**PARKS TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF PARKS  
TWP., ARMSTRONG COUNTY, PENNSYLVANIA**

**HEREIN REFERRED TO AS:**

**PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**ARMSTRONG COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2003 TO DECEMBER 31, 2006**



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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 Parks 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 Parks Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Parks Township	Armstrong	\$ 13,357	\$ 13,066	\$ 14,561	\$ 14,804

BACKGROUND (Continued)

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

Parks Township Volunteer Fire Department No. 1

Mr. Shawn R. Leasure, President  
PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Armstrong County

We have conducted a compliance audit of the Parks 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, 2003 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 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.

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 Parks 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 applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objectives. We also tested transactions, confirmed the Parks Township 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, 2003 to December 31, 2006, the Parks Township Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2006, had a cash balance of \$69,131 and an investment balance with a fair value of \$28,660. Additionally, the results of our tests indicated that, in all significant respects, the Parks Township 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 – Noncompliance With Prior Audit Recommendation –  
Inadequate Signatory Authority for the Disbursement of Funds
- Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Inadequate Minutes of Meetings
- Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Failure to Obtain 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 Parks Township Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

February 9, 2007

JACK WAGNER  
Auditor General



PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT RECOMMENDATIONS

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

- Insufficient Officer's Bond Coverage

By increasing its officer's bond coverage on March 20, 2006, to an amount greater than the balance of cash assets.

- Unauthorized Expenditure

By receiving reimbursement on March 1, 2006, for the unauthorized expenditure made in the prior financial period.

- Failure to Maintain a Complete and Accurate Membership Roster

By maintaining a comprehensive roster of the relief association membership.

NONCOMPLIANCE WITH PRIOR AUDIT RECOMMENDATIONS

The Parks Township Volunteer Firefighters' Relief Association has not complied with the following prior audit recommendations as further discussed in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –  
Inadequate Signatory Authority for the Disbursement of Funds
- Noncompliance With Prior Audit Recommendation –  
Inadequate Minutes of Meetings
- Noncompliance With Prior Audit Recommendation –  
Failure to Obtain a Federal Tax Identification Number

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

PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Inadequate Signatory Authority for the Disbursement of Funds

Condition: As cited in the prior audit report, the signature of only one relief association officer was used to disburse relief association funds from the checking account, although the signatures of at least two relief association officers are required. During the current audit, we again detected additional checks that only contained one signature. Specifically, we determined that 10 of the 15 checks drawn on the relief association's checking account during the current financial period only contained the signature of one officer, although two are required.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required in order to bind the association by formal contract or to issue any negotiable instrument.

Cause: While notified of this condition in the prior audit report, relief association officials neglected to require the signatures of at least two officers for the disbursement of funds.

Effect: As a result of the relief association not obtaining two signatures for all disbursements, assets were placed at greater risk of misappropriation.

Recommendation: We again recommend the relief association officials adopt procedures which would require the signatures of at least two officers on all relief association negotiable instruments, as required by Act 84. 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.

PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Inadequate Minutes of Meetings

Condition: As cited in the prior audit report, the relief association failed to maintain detailed minutes of meetings, as required by Act 84. During the current audit, we again detected that the relief association's minutes did not address all of the financial-related transactions that occurred during the current financial period under review.

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.

Cause: While notified of this condition in the prior audit report, relief association officials neglected to maintain detailed minutes of meetings as required by Act 84.

Effect: The failure to maintain detailed minutes of meetings prevented the verification as to whether all relief association business was presented before the membership for approval.

Recommendation: We again recommend the relief association maintain detailed minutes of meetings, including all financial-related business conducted by the relief association. 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.

PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Failure to Obtain a Federal Tax Identification Number

Condition: As cited in the prior audit report, the volunteer firefighters' relief association failed to comply with the Tax Equity and Fiscal Responsibility Act by not obtaining a federal tax identification number. The relief association is inappropriately using the fire service organization's federal tax identification number, although the fire service organization and the relief association are separate legal entities.

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: While notified of this condition in the prior audit report, the relief association neglected to take the appropriate steps in order to procure its own 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 again recommend the relief association immediately apply for its own federal tax identification number through the Internal Revenue Service, and furnish this 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 agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

## PARKS 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.

The VFRA had \$28,660 (fair value) or 29% 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.

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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).

PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
ACCOMPANYING EXPENDITURE INFORMATION  
FOR THE PERIOD JANUARY 1, 2003 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	\$ 442
Death benefits	100
Total Benefit Services	<u>\$ 542</u>
Fire Services:	
Equipment purchased	\$ 25,101
Equipment maintenance	18
Training expenses	1,205
Total Fire Services	<u>\$ 26,324</u>
Administrative Services:	
Miscellaneous administrative expenses	\$ 100
Total Administrative Services	<u>\$ 100</u>
Total Investments Purchased	<u>\$ 6,465</u>

PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Parks Township Volunteer Firefighters' Relief Association Officers:

Mr. Shawn R. Leasure, President

Ms. Tamara Filo, Secretary

Dr. Jay Start, Treasurer

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

Ms. Mary E. Ralston, Secretary  
Parks 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).