



PHOENIX FIREMAN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

PHOENIX VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

BLAIR COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005 TO DECEMBER 31, 2007



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

<u>Municipality</u>	<u>County</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Blair Township	Blair	\$ 6,547	\$ 7,524	\$ 8,188
Hollidaysburg Borough	Blair	\$31,062	\$31,654	\$31,872

BACKGROUND (Continued)

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

Phoenix Volunteer Fire Company of Hollidaysburg, Pennsylvania

Mr. Robert Kerns, President
PHOENIX VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Blair County

We have conducted a compliance audit of the Phoenix 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, 2005 to December 31, 2007. 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.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Phoenix 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 Phoenix Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2007, 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, 2005 to December 31, 2007, found, in all significant respects, the Phoenix 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 Phoenix Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$57,926 and an investment balance with a fair value of \$57,860.

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

Finding No. 2 – Unauthorized Expenditures

Finding No. 3 – Inadequate Financial Record-Keeping System

Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment 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 Phoenix Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

July 23, 2008

JACK WAGNER
Auditor General

PHOENIX VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Phoenix Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Failure to Maintain a Federal Tax Identification Number

By reactivating its federal tax identification number and furnishing it to the financial institution in which the relief association maintains funds.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Phoenix 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 –
Inadequate Signatory Authority for the Disbursement of Funds

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.

PHOENIX 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 relief association account, although the signatures of at least two relief association officers are required. During the audit period, three disbursement checks had only one signature.

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 the Act 84 provision, which requires 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.

PHOENIX VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items, which are not authorized by Act 84:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
05/20/05	1428	Commercial property insurance premium	\$ 2,317
07/11/05	1486	Fire company officer's bond premium	250
08/26/05	1444	Fire company officer's bond premium	250
07/24/07	1541	Fire company officer's bond premium	250
Total			<u>\$ 3,067</u>

Criteria: Act 84 at 53 P.S. § 8506(e)(2) states:

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

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

Since 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) had been established whereby the DCED provided interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." The fire company's bond and property insurance have been deemed by DCED to not qualify as insurance benefits which directly cover the volunteer firefighters; consequently, these disbursements are not authorized under Act 84.

PHOENIX VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Relief association officials were unaware that the aforementioned expenditures were not authorized by Act 84.

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 84.

However, subsequent to the period under review, on August 15, 2008, the fire company reimbursed the relief association for the above unauthorized expenditures.

Recommendation: We recommend the relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) to aid them in determining the propriety of future expenditures. 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.

PHOENIX VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – 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:

- Annual ledgers were not utilized to record the transactions of the relief association accounts.
- The journals provided by the relief association were inaccurate and incomplete insofar as some of the disbursement amounts did not agree to the actual checks paid, transfers among accounts were not recorded, and the beginning and ending account balances reflected improper amounts.
- Documentation to support various receipts was not available for examination at the time of the audit.
- Annual financial statements were not prepared.

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, which meets the minimum record-keeping requirements of this department. In addition, the relief association officials should ensure that the financial records accurately reflect the transactions and balances of the relief association accounts. 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.

PHOENIX VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While the relief association had previously maintained an equipment roster, they did not provide an updated roster which includes the equipment items purchased in the current audit period. In addition, there was no indication that an inventory of the equipment was performed to account for the relief association's fixed assets.

Criteria: The relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's fixed assets. A cumulative roster of all relief association equipment should include the following:

- Type of equipment purchased.
- Date of purchase.
- Unit cost.
- Name of supplier.
- Serial number, if applicable.
- Current location of item.
- Final disposition of sold or damaged equipment.
- Notation of the annual inventory.

Cause: Relief association officials failed to establish adequate internal control procedures over fixed assets to include the maintenance of a cumulative equipment roster and the performance of an annual equipment inventory.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual equipment inventory prevents adequate accountability and safeguarding of relief association assets.

Recommendation: We recommend the relief association officials maintain a cumulative roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual inventory of all operable equipment and that the inventory be sufficiently documented. 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.

PHOENIX 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, 2007, the VFRA had \$57,860 (fair value) or 50% 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.

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).

PHOENIX VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2007

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	\$ 56,148
Relief benefits	429
Total Benefit Services	\$ 56,577
Fire Services:	
Equipment purchased	\$ 45,597
Equipment maintenance	9,058
Training expenses	8,485
Fire prevention materials	2,056
Total Fire Services	\$ 65,196
Administrative Services:	
Officer compensation	\$ 1,800
Other administrative expenses	2,359
Total Administrative Services	\$ 4,159

PHOENIX VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Phoenix Volunteer Firefighters' Relief Association Officers:

Mr. Robert Kerns, President

Mr. David Zeek, Secretary

Mr. Anthony DiBona, Treasurer

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

Ms. Betty Robertson, Secretary
Blair Township

Ms. Ann M. Andrews, Secretary
Hollidaysburg 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.