



**BEDFORD FIREMEN'S RELIEF ASSOCIATION
OF THE STATE OF PENNSYLVANIA**

BEDFORD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2010



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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 Bedford Firemen's Relief Association of the State of Pennsylvania, herein referred to as Bedford 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 Bedford Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>
Bedford Borough	Bedford	\$16,555	\$18,634
Bedford Township	Bedford	\$35,891	\$40,397
Colerain Township	Bedford	\$ 7,694	\$ 8,660
East Saint Clair Township	Bedford	\$ 2,552	\$ 2,872
Napier Township	Bedford	\$ 2,015	\$ 2,268
Rainsburg Borough	Bedford *	\$ 661	\$ 744
Snake Spring Township	Bedford	\$ 5,537	\$ 6,232

* The 2009 state aid allocation from Rainsburg Borough was not distributed to the relief association until May 18, 2010; the state aid was then erroneously deposited into the fire department's account. The relief association received reimbursement from the fire department on June 15, 2011. (See the finding in the Finding and Recommendation section of this report).

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

Bedford Fire Department No. 1



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. David J. Shedlock, President
BEDFORD VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Bedford County

We have conducted a compliance audit of the Bedford 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 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 Bedford 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 objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Bedford Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Bedford 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 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, 2009 to December 31, 2010, found the Bedford Volunteer Firefighters' Relief Association took appropriate corrective action to address the findings contained in our prior audit report and, 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 Bedford Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$155,637 and an investment balance with a fair value of \$804,372.

Finding – Failure to Deposit 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 Bedford Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

June 16, 2011

EUGENE A. DEPASQUALE
Auditor General

BEDFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Inadequate Relief Association Bylaws

By revising the relief association's bylaws to meet the minimum requirements of Act 118.

- Unauthorized Expenditure

By receiving reimbursement from the affiliated fire department for the unauthorized expenditure made during the prior audit period. In addition, we did not detect any additional unauthorized expenditures during the current audit period.

- Insufficient Officer's Bond Coverage

By increasing the officer's bond coverage to an amount greater than the balance of cash assets.

BEDFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Failure to Deposit State Aid

Condition: The relief association did not deposit the 2009 state aid distributed by Rainsburg Borough, in the amount of \$661, into a relief association account.

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 in September 2009. The municipal secretary for reasons not made clear, forwarded the state aid to the relief association on May 18, 2010, which was not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). The check was erroneously deposited into a fire department account on June 3, 2010.

Effect: As a result of the state aid not being deposited, the relief association was unable to use the funds for general operating expenses or for investment purposes. In addition, the failure to deposit receipts in a timely manner can lead to a greater risk that funds could be lost or misappropriated.

However, as a result of our audit, and subsequent to the audit period, on June 15, 2011, the fire department transferred the \$661 to the relief association account.

Recommendation: We recommend the relief association establish accounting and internal control procedures to ensure that all state aid is received in a timely manner and deposited into a relief association account. 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.

BEDFORD 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 \$ 788,349 (fair value) or 82% 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).

BEDFORD 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	\$ 42,923
Death benefits	10,000
Relief benefits	135
Total Benefit Services	\$ 53,058
Fire Services:	
Equipment purchased	\$ 13,368
Equipment maintenance	310
Training expenses	2,540
Total Fire Services	\$ 16,218
Administrative Services:	
Miscellaneous administrative expenses	\$ 892
Total Administrative Services	\$ 892
Total Investments Purchased:	\$ 224,696

BEDFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Bedford Volunteer Firefighters' Relief Association Governing Body:

Mr. David J. Shedlock, President

Mr. Rocky Fetter, Vice President

Mr. Jay Speicher, Secretary

Mr. Timothy A. Berkebile, Treasurer

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

Ms. Beverly Fisher, Secretary
Bedford Borough

Ms. Janie L. McMillen, Secretary
Bedford Township

Ms. Madelyn N. Fox, Secretary
Colerain Township

Ms. Dorothy R. Oldham, Secretary
East Saint Clair Township

Ms. Judy E. Kendall, Secretary
Napier Township

Mr. Wayne C. Koontz, Secretary
Rainsburg Borough

Ms. Rose Diehl, Secretary
Snake Spring 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.