



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

HEREIN REFERRED TO AS:

BEDFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

BEDFORD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 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 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 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 Bedford Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>
Bedford Borough	Bedford	\$18,067	\$18,477
Bedford Township	Bedford	\$37,641	\$39,065
Colerain Township	Bedford	\$ 8,096	\$ 8,400
East Saint Clair Township	Bedford	\$ 2,735	\$ 2,827
Napier Township	Bedford	\$ 2,107	\$ 2,166
Rainsburg Borough	Bedford	\$ 713	\$ 730
Snake Spring Township	Bedford	\$ 5,831	\$ 6,024

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

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, 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, 2007 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 Bedford 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 Bedford 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, 2007 to December 31, 2008, found, in all significant respects, the Bedford 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 Bedford Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$105,479 and an investment balance with a fair value of \$483,193.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

Finding No. 2 – Unauthorized Expenditure

Finding No. 3 – 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 Bedford Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

May 5, 2009

JACK WAGNER
Auditor General

BEDFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Bedford Volunteer Firefighters' Relief Association has not complied with the prior audit findings. These issues are further discussed in the following findings noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

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

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.

BEDFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

Condition: As cited in the prior two audit reports, the existing bylaws of the Bedford Volunteer Firefighters' Relief Association do not adequately address all of the provisions required by Act 84 at 53 P.S. § 8505(c). Specifically, the association bylaws are deficient as follows:

- The bylaws state that the officer's bond coverage shall be at least as great as the *minimum* cash balance.
- The bylaws inappropriately define the secretary and treasurer positions as one office.

In addition, the relief association did not formally define the death benefits being offered to its members. However, during the current audit period, the relief association paid \$29,750 in death benefits to the beneficiaries of three relief association members. Although the expenditures are authorized by Act 84, the types, amounts, and criteria to be met before receiving the benefits were not described in the bylaws or a formal policy approved by the membership.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that the relief association's bylaws shall include the following provision:

- Require the disbursing officer to be bonded by corporate surety for the faithful performance of his duties. The amount of the 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... (emphasis added)

In addition, prudent business practice dictates that the relief association establish internal control procedures to ensure that officers' duties are clearly defined and segregated, specifically the positions of secretary and treasurer. The separation of responsibilities of these two positions will ensure that the person who is responsible for maintaining the minutes of meetings that authorize the association's financial transactions is not the same person who is responsible for the recording and execution of the financial transactions. The relief association bylaws should formally document the specific operating procedures of the association.

Furthermore, prudent business practice dictates that when a relief association offers death benefits, or any other type of discretionary benefit provided by Act 84, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amount of benefits offered to its membership as well.

Cause: While notified of this condition in the prior two audit reports, the relief association officials neglected to amend the bylaws to ensure they were in accordance with Act 84.

BEDFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

In addition, the relief association did not perceive the official segregation of the officer positions of secretary and treasurer nor the formal authorization of the payment of death benefits to be essential internal controls in safeguarding relief association assets.

Effect: As a result of the mandatory bond provision not being properly addressed and the positions of secretary and treasurer not being formally segregated, the relief association may have conducted its affairs without proper authorization.

In addition, the relief association's failure to specifically define the type and amount of death benefits prevents the membership from being aware of the benefits offered to the membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the association.

Recommendation: We again recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 84 and properly authorize the operating procedures of the relief association. We also recommend that relief association officials amend the bylaws to segregate the positions of secretary and treasurer and to formally define the death benefits being offered to the membership. 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 presented at the audit exit conference and indicated they will take action to comply with the recommendation.

BEDFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditure

Condition: The relief association expended \$2,401 for a premium payment owed on the fire company's commercial package and umbrella insurance policies that is not authorized by Act 84.

Criteria: Act 84 at 53 P.S. § 8506(e)(2 and 12) 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 firemen 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.

- (12) To secure insurance against the legal liability of the volunteer firefighters for loss and expense from claims arising out of the performance of their official, authorized duties while going to, returning from or attending fires or while performing their duties as special fire police.

Because 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 commercial package and umbrella insurance policy premiums have been deemed by DCED to not qualify under Act 84. Consequently, this disbursement is not an authorized expenditure.

Cause: Relief association officials were unaware that the expenditure for the premium payment on the fire company's commercial package and umbrella insurance policies was not authorized by Act 84.

BEDFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 84.

Recommendation: We recommend the relief association be reimbursed \$2,401 for the unauthorized expenditure and that 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.

BEDFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Insufficient Officer's Bond Coverage

Condition: As cited in the prior two audit reports, the relief association did not maintain a bond in a sufficient amount to cover the authorized disbursing officer. The relief association's bond coverage was \$100,000; however, as of December 31, 2008, the cash assets totaled \$105,479.

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 two audit reports, relief association officials neglected to monitor the cash balance to ensure the officer's bond coverage was in compliance with Act 84 provisions.

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.

However, subsequent to the audit period, effective March 26, 2009, the relief association increased their bond coverage to \$200,000.

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

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, 2008, the VFRA had \$392,627 (fair value) or 67% 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, 2007 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	\$ 43,094
Death benefits	29,750
Tokens of sympathy and goodwill	35
Total Benefit Services	\$ 72,879
Fire Services:	
Equipment purchased	\$ 6,291
Equipment maintenance	1,256
Training expenses	3,240
Total Fire Services	\$ 10,787
Administrative Services:	
Miscellaneous administrative expenses	\$ 901
Total Administrative Services	\$ 901
Total Investments Purchased	\$ 422,119

BEDFORD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Bedford Volunteer Firefighters' Relief Association Officers:

Mr. David J. Shedlock, President

Mr. Jay F. Speicher, Secretary

Mr. Marvin L. Bennett, Treasurer

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

Ms. Beverly Fisher, Secretary
Bedford Borough

Ms. Janice M. Coutant, Secretary
Bedford Township

Ms. Madelyn N. Fix, Secretary
Colerain Township

Ms. Dorothy 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.