

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

DAUPHIN 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 Harrisburg Firemen's Relief Association of the State of Pennsylvania, herein referred to as Harrisburg 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.

When volunteer firefighters' relief associations receive public tax monies, the association officers 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. However, for the 2009 and 2010 years, the City of Harrisburg (municipality) did not allocate state aid to the Harrisburg Volunteer Firefighters' Relief Association; the municipality allocated 100% of the distributions it received for these years to the River Rescue Volunteer Firefighters' Relief Association.

BACKGROUND (Continued)

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

Camp Curtain Fire Company No. 13
Mount Pleasant Fire and Rescue Company No. 8
Riverside Fire Company No. 15

Mr. William Hoyer, President
HARRISBURG VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Dauphin County

We have conducted a compliance audit of the Harrisburg 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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was to determine if the volunteer firefighters' relief association expended accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Harrisburg 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting

the Harrisburg Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Harrisburg 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 objective. 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 objective.

The results of our audit, for the period January 1, 2009 to December 31, 2010, found the Harrisburg Volunteer Firefighters' Relief Association did not, in all significant respects, expend accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the finding listed below and discussed later in this report. The results of our tests also indicated the Harrisburg Volunteer Firefighters' Relief Association expended accumulated relief funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$437,822 and an investment balance with a fair value of \$14,107,636.

Finding – Unauthorized and Undocumented Expenditure

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 Harrisburg Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

January 8, 2013

JACK WAGNER
Auditor General

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Unauthorized and Undocumented Expenditure

Condition: The Harrisburg Volunteer Firefighters' Relief Association expended \$45,000 for an upgrade to an independent organization's¹ existing website, which is not authorized under Act 118.

Our audit disclosed that in April and November 2009, and in February 2010, the independent organization received bid proposals from three subcontractors for an upgrade to the independent organization's existing website.

In January 2010, the independent organization sent an email to the Department of Community and Economic Development (DCED) stating that the relief association proposes to develop a website. Because the Department of the Auditor General is legislatively prohibited from giving pre-audit advice, an interagency agreement with DCED has been established whereby DCED provides interpretation of Act 118. As a result of the agreement, relief associations routinely contact DCED with questions re: the allowability of an expenditure before the expenditure is made. However, in this case it was the independent organization that made a direct inquiry to DCED.

We were informed by the relief association that in February 2010, DCED approved the expenditure at an estimated cost of \$45,000. Furthermore, a notation included in the relief association's meeting minutes for a meeting held February 15, 2010, reads "a response from DCED was read allowing the development and operation of the web [site] requested by [the independent organization]."

We were provided a copy of an invoice from the independent organization totaling \$45,000. On April 22, 2010, the relief association paid \$45,000 to the independent organization for costs associated with this invoice. However, the invoice lacked specific cost details and only contained a note saying "for website." Furthermore, the relief association failed to execute a written contract detailing the cost of the upgrade and detailing the exact specifications of the design or content of the website upgrade. Therefore, we also consider the expenditure to be undocumented.

¹ According to the independent organization's website they are an educational, non-profit organization of emergency service organizations, responders, industry and public service professionals who research, exchange information, and cultivate relationships among constituents about issues affecting emergency response and safety issues in Pennsylvania. The independent organization also rents office space from the Harrisburg Volunteer Firefighters' Relief Association.

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

According to a subcontractor proposal dated November 2009, the estimated cost of the website upgrade was \$30,000. This subcontractor was chosen by the independent organization to upgrade the website. However, invoices from the subcontractor, provided to us by the independent organization, for the period April through November 2010, totaled only \$29,000. Therefore, a variance of \$16,000 exists between the actual cost of the upgrade compared to the amount paid by the relief association.

In an attempt to substantiate this \$16,000 variance, officials with the independent organization provided additional documentation. One document consisted of a W-2 Wage and Tax Statement for one employee of the independent organization totaling \$36,000; however, no time sheets or other invoices were provided to substantiate that the employee's duties were related to the website upgrade. Also provided were payment requests from another employee of the independent organization citing "website work" for a total of \$600; however, once again, no time sheets were provided to substantiate that the employee's duties were related to the website upgrade. Finally, a third document provided was an invoice from another outside contractor totaling \$1,500 for hosting, maintenance and management of the website; however, no other documentation was provided to evidence these costs were related to the website upgrade. Even though we were provided supporting documents totaling \$38,100, we were unable to substantiate the \$16,000 variance.

We also obtained evidence indicating that officials from the independent organization, the relief association, DCED, and the state fire commissioner's office participated in meetings related to the implementation of the website upgrade. According to the independent organization, these meetings were initiated by the independent organization.

As evidenced by a email dated February 8, 2010, a DCED employee conditionally approved the expenditure by stating "As you describe how you wish to develop and operate the web site, I would say you may spend VFRA funds on it but I would remain very interested to see it demonstrated." Furthermore, to clarify the approval, on September 28, 2012, we met with the DCED chief counsel and the above mentioned employee who again stated that he approved the expenditure; however, the approval included the condition that the upgraded website should provide educational and training information related to the relief association. The DCED employee further stated that while he participated in meetings where general website presentation styles were discussed, he nor anyone else from DCED, ever reviewed the website after it was completed.

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

In our examination of the website, we found that the existing website is owned and operated by the independent organization, solicits donations for the independent organization, and provides information about that organization, its board members and partners. The only mention of the relief association is a notation on one of the pages that states “website sponsored by the Harrisburg Firemen’s Relief Association.” However, we noted that the sponsorship statement was added after we began our inquiry of the relief association expenditure.

Prior to our inquiry, there was no mention of the relief association on the website. We also noted that the website did not include any contact information for the relief association. Furthermore, the website provided no specific or relevant safety training, education, and other information for relief association members or the community it serves; instead, the website promotes the mission and goals of the independent organization.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1 and 11) states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

While costs associated with the upgrade of a relief association’s website constitutes an authorized expenditure, costs associated with the upgrade of an independent organization’s website do not constitute authorized relief association expenditures per Act 118. Costs associated with relief association websites are permissible only when the website is owned by the relief association and provides relief association members with safety training, education, and other information about the relief association that is relevant to its members and the community it serves.

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: As evidenced by the February 8, 2010 email received from DCED, the notation in the relief association meeting minutes, and our September 28, 2012 meeting, DCED conditionally approved the expenditure of relief funds for the development of a website if the website provided educational and training related information. However, relief funds were used to upgrade the existing website of the independent organization. Had the relief association used the funds to develop its own website, that was owned by the relief association and provided relief association members with safety training, education, and other information about the relief association, its members and the community it serves, the expenditure would have been deemed authorized.

In addition, the relief association failed to obtain a formal written agreement detailing the exact specifications of the design or content of the website. Furthermore, it failed to ensure that sufficient detailed information was provided to support the invoice amount of \$45,000.

Effect: As a result of the lack of due diligence by the relief association officers, the relief association expended \$45,000 in relief association funds for an unauthorized and undocumented expenditure. Furthermore, given the sponsorship statement on the website owned by the independent organization, the \$45,000 constitutes a donation which is prohibited by Act 118. As a result of the improper expenditure, relief association funds were not available for investment purposes or to pay for expenses authorized by Act 118.

Recommendation: We recommend that the relief association seek reimbursement from the independent organization for the unauthorized expenditure. In addition, the relief association officers should:

- exercise due diligence before entering into any future contracts for services;
- ensure formal contracts are executed for all contracted services;
- only pay invoices for contracted services for which the vendor has made clear the product or services rendered, for which formal contracts have been properly executed, and associated charges are clearly documented;
- become familiar with Act 118 to aid them in determining the propriety of future expenditures,
- request that the independent organization remove from the website the relief association's sponsorship notation; and
- refrain from making future donations to independent organizations.

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response:

It is the Relief Association's position that the \$45,000 expenditure to the [independent organization] to create a website to promote firefighter safety and to be a common location for information needed to operate a volunteer relief fire department and EMS company was appropriate.

As all are aware, both [name deleted], who is executive director of [the independent organization] and not a representative of the Relief Association, and the Relief Association requested separate opinions from the Department of Community and Economic Development ("DCED") on the appropriateness of the expense. Both requests specifically provided

Harrisburg Firemen's Relief proposes to develop a website; which is a currently approved Relief expenditure. The primary goals of the website will be to promote firefighter safety and be a common location for information need to operate VFRs fire department and EMS companies. The website will be easy to access, navigate and content rich with information that is relevant to today's Fire and EMS leaders, including current best practices and lessons learned from recent incidents. Another goal would be to provide accurate and consistent information about the myriad of laws, regulations and compliance issues that Fire and EMS leaders and providers must be aware of in order to serve effectively. This website would be able to provide a one-stop resource for information and tools that could be used to calculate the actual costs of providing protection to a community which could serve as a useful way to provide relevant information to local and state government officials. We would also address in an objective manner the considerations faced by Fire and EMS leaders today about the potential need to consolidate services in order to gain efficiencies, decrease response times, utilize all available manpower effectively and work together toward our common goal of providing rapid response and competent providers. Our overarching goal is to achieve a new level of firefighter life safety with what is currently an authorized use of Firemen's Relief funds.

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDING AND RECOMMENDATION

Finding – (Continued)

As the capabilities of interactive, online resources continue to increase exponentially every year the cost of delivering this content has become more accessible. Further, there is no single resource available today that a Fire or EMS service leader can use as a 'go-to' resource to provide comprehensive, up to date information about best practices, lessons learned and compliance with state and federal laws, regulations and requirements. As they begin the difficult process of streamlining operations to cut costs and considering the need for consolidation leaders turn to a number of resources for information and are frequently left with conflicting information or perhaps they feel overwhelmed by the obstacles ahead. Further, Pennsylvania's fire service has no single source that can consolidate information regarding recent incident review that easily identifies what was learned, what could be done better and safer next time. No longer is the status-quo acceptable; not for Fire or EMS services and not for the residents of the communities that they serve. A professionally designed and maintained online resource could serve as a valuable tool to provide information and templates that would allow departments to move forward toward a better, more efficient future and we can deliver just such a tool.

It is the job of Firemen's Relief to ultimately provide the tools necessary for departments to insure the ongoing safety of their members which in turn benefits the residents served by their departments. While unconventional, this online tool would serve that purpose like few others could and websites have previously been deemed eligible for Firemen's Relief funding. For a Fire Chief, Fire Company President, Board Member or Trustee to have one place to go in order to find an easily navigated, interactive source of information serving as a compendium of information that they need to know would be a substantial benefit. In addition to being able to deliver timely, accurate and consistent information, this resource would also save potentially hours of time, which in and of itself is a valuable commodity to career and volunteer departments alike. Time that could be spent more appropriately on the day to day operational considerations necessary in order to insure that when the bell rings, the apparatus and personnel are truly prepared to respond and do so in the safest, most cost effective and compliant manner possible.

In summary, we believe that the time has come to address the growing needs of Fire and EMS service leaders for a comprehensive and easily accessible tool that will provide them with the knowledge they need to continue meeting the dynamic challenges that they face in the 21st century. We have the knowledge, experience, resources and relationships necessary in order to develop just such a resource. We have the commitment required to insure that this remains a dynamic resource that is capable of changing along with the requirements and expectations placed upon Emergency Responders by local, state and federal governments. We have a clear understanding of the need for Fire and EMS service leaders to work closely with local government to insure that the members of the communities they serve are receiving the quickest, most effective and efficient service

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDING AND RECOMMENDATION

Finding – (Continued)

possible. With no one resource currently available to fill this void, perhaps most importantly we have one solution to a multifaceted problem that has yet to be addressed effectively in the Commonwealth of Pennsylvania for our Emergency Service leaders and we know that it will offer substantial benefits.

We ask that you approve this expenditure.

Act 118 of 2010 (the successor to Act 84), 35 Pa.C.S. §7416 ("Act 118") provides that "Funds of any volunteer firefighters' relief association may be spent: (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association. ..." It also provides that funds may be spent "to purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service."

On the DCED's website, the funding of a website to promote fire safety programs, training and education is an approved administrative expense.

<http://www.dced.state.pa.us/vfra/default.aspx>. Question 15 in the Commonly Asked Questions Concerning Firefighter's Relief Associations contained in the Management Guidelines for Volunteer Firefighters' Associations 2010 (the year of the expenditure) ("Management Guidelines") specifically provides[:]

Q. Can the relief association pay for the development and cost of a website?

A. Yes, a relief association may develop a web site to promote fire safety programs, training and education and to describe what a relief association can provide for members and the community. Cost of the website development may be paid from relief association funds. Relief associations will need to exercise sound judgment on how a website is developed and what kind of information will be displayed, including the cost of designing and maintaining it.

Pursuant to the Draft Audit, the Department has determined that the expenditure was inappropriate because "costs associated with relief association websites are permissible only when the website is owned by the relief association and provides relief association members with safety training, education, and other information about the relief association that is relevant to its members and the community it serves." The Relief Association respectfully disagrees with the Department finding that the website must be owned by the Relief Association to be an approved expenditure and that the website does not provide members with safety training, education and other information that is relevant to its members and the community it serves. The Relief Association also notes that DCED approved the expenditure and participated in the design of the website.

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDING AND RECOMMENDATION

Finding – (Continued)

1. Neither Act 118, The Guidance Issued By DCED, Nor The Management Guidelines Require Relief Association Ownership Of A Website.

Nowhere in Act 118 does it provide that the website be owned by the Relief Association. Nowhere on DCED's website does it provide that the website be owned by the Relief Association for the expenditure to be appropriate. Nowhere in the Management Guidelines does it provide that the website be owned by the Relief Association for the expenditure to be appropriate. There are many other Act 118 approved expenses which do not require that the Relief Association own the item purchased, for example, rental fees (35 Pa.C.S. §7416(f)(1)), purchase of prosthetic devices (35 Pa.C.S. §7416(f)(2)(iii)), and training courses ((35 Pa.C.S. §7416(f)(10)).

As the Audit Findings indicated, [independent organization] was the first to make the request to DCED for the Relief Association to fund the cost of a website to provide for information related to fire safety. There was never any representation to DCED that the website would be owned by the Relief Association. DCED which participated in the planning and design meetings had actual knowledge that the Relief Association would not own the website and yet still approved the expense as an appropriate expense and never indicated that its position changed after or while attending the planning and design meetings.

2. The Website Does Provide Information To Promote Fire Safety Programs, Training And Education as the Proposal to DCED Indicated it Would.

The Draft Report criticizes the website for having information about [independent organization] and having a link to donate to [independent organization], which is standard information contained on legitimate websites. Having information about [independent organization] is necessary to give credibility to the information provided and having an ability to donate to [independent organization] is necessary to seek funds for the organization such that it can continue to host and provide current information vital to fire safety.

Disingenuously, the Draft Report completely ignores that over seventy-five percent of the website content provides information which promotes fire safety programs, training, and education as it indicated it would in the request to DCED. Under the "OPS" link, the website provides for best practices for firefighters, health and safety information, general information for relief associations, information regarding training and education, information about recruiting and retention, and other pertinent information. Under "Admin & Finance", information is provided regarding funding of emergency services. Under "Issues & Govt", information is provided regarding legislative priorities, updates, local government relations, open records law updates, PESLA, residential sprinkler advocacy and SR 60 Final Update. Under "Resources", links to other fire related organizations are provided, fire safety videos are provided and training materials are being created. The website provides exactly the information which the request indicated that it would provide.

We would also like to note that the Department's own website links to the [independent organization] website in question as a resource for Volunteer Firemen and Relief Associations.

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDING AND RECOMMENDATION

Finding – (Continued)

Although specific information about the Relief Association is not provided, neither the Act nor any guidance issued there under provides that such information is required, only that it is permitted. Additionally, the request to DCED never indicated that the website would provide information about the Relief Association nor did the planning and design sessions which DCED attended indicate so.

3. The Department is Estopped from Deeming the Expenditure Inappropriate as the Relief Association Relied upon DCED's approval.

Pursuant to the Community and Economic Development Enhancement Act, past practices, and industry standards, DCED has the authority to provide advice on whether Relief Association funds may be used on specific projects. Additionally, page 16 of the Management Guidelines provides "If the relief association is considering purchasing equipment, but is not sure if it would be considered authorized, we suggest reviewing the VFRA Online Database or contact the Department of Community and Economic Development."

In the current case, the Relief Association and [independent organization] requested such advice from DCED. Not only did a DCED representative respond that the expenditure was appropriate, but the representative was present for the planning and design meetings associated with the website. To now, several years after receipt of the approval, allege that the approval was conditioned upon the final version of the website ignores the language of the approval, the reality that DCED was involved in the planning and design process, and that the funds were expended prior to the final version of the website going live.

4. The Relief Association's Allocations Should Not Be Withheld As the Relief Association Acted in Good Faith and DCED Approved and Participated in the Planning and Design of the Website.

Act 118 of 2010 (the successor to Act 84), 35 Pa.C.S. §7414, specifically provides

This subchapter shall be:

(1) Construed, applied and interpreted, so far as circumstances permit, as justifying the actions of the officers and members of volunteer firefighters' relief associations affected by it, when the actions appear to have been taken in good faith and in a bona fide belief that they were in the furtherance of the purposes of [the Act].

The Relief Association, in reviewing the Management Guidelines and DCED's website, had a good faith belief and a reasonable belief that the expense was appropriate under Act 118. Nevertheless, the Relief Association requested the opinion of DCED and involved DCED in the actual planning and design meetings for the website. As the Department, as a policy, does not give pre-audit advice, there were no other avenues which the Relief Association could have pursued to ensure that the Department would find the expenditure to be appropriate. To now ignore the involvement and approval of DCED and to

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDING AND RECOMMENDATION

Finding – (Continued)

withhold the Relief Association's allocation would send a chilling message to all relief associations causing them to question even the most basic expenditures which appear to be appropriate when reviewing Act 118, the Management Guidelines, DCED's website, and, most importantly, having DCED's approval.

As Act 118 requires that it be construed as justifying the actions of the relief association when the actions appear to have been taken in good faith and in a bona fide belief that they were in furtherance of the purpose of the Act, the Relief Association's allocations should not be withheld.

5. There was Sufficient Documentation for the Expense.

The Draft Audit also criticizes the Relief Association for not having sufficient documentation for the expense. However, the Draft Audit fails to acknowledge the totality of the circumstances. The Relief Association contracted with [independent organization] for [independent organization] to create and host a website to promote firefighter safety and to be a common location for information needed to operate volunteer fire departments and EMS companies. The cost of such service as determined by [independent organization] was \$45,000. Although [independent organization] did naturally subcontract out the technical function of programming, [independent organization] researched, created and drafted the content for the website. [Independent organization] also worked with DCED, the Pennsylvania Fire Commissioner and the Relief Association on content and design matters to ensure that the content was appropriate. By contracting with [independent organization] to create and host the website, the Relief Association is providing vital information without the long term costs associated with maintaining a website or the administrative time necessary to continuously update the website with current safety information. The Relief Association did not and does not have the appropriate manpower to create the website on its own without contracting with another entity.

The Findings also criticize the Relief Association for not entering into a contract with the subcontractor. Nowhere in Act 118, the Management Guidelines, or DCED's website does it indicate that Relief Associations are required to enter into agreements with subcontractors of vendors. In fact, entering into a contract with a subcontractor would only expose the Relief Association to potential litigation to which it would not otherwise be exposed.

Sample bylaws provided in the Management Guidelines provide that "Supporting documentation such as invoices, canceled checks, etc. shall be maintained to verify all disbursements." page 8. The Relief Association did have an invoice from [independent organization] for the expenditure and did have the canceled check. The Draft Audit criticizes that the "invoice lacked sufficient detail of what was provided for the website." Although the invoice may have provided that the charge was for "the website", the Relief Association was fully aware of what was provided for "the website" and for what the charge was assessed. The website was designed based upon the proposal which [independent organization] and the Relief Association forwarded to DCED and upon which [independent organization] and the

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDING AND RECOMMENDATION

Finding – (Continued)

Relief Association agreed. Relief Association delegates were present at the planning and design meetings. To indicate that the Relief Association did not have sufficient detail of what was provided for "the website" is putting form over substance and ignoring the many hours which Relief Association representatives spent monitoring the progress of the design of the website.

The Audit Findings also criticize the Relief Association for not having specifics about the website in its minutes, but having a notation that DCED approved the expenditure. There is no legal requirement that discussions but included in minutes. In fact, as indicated in Robert's Rules of Order, "The minutes should contain a record of what is done, not what is said."

Auditor's Conclusion Statement:

VFRA audits are conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. According to Chapter 6, Field Work Standards for Performance Audits, "the nature and types of evidence to support auditors' findings and conclusions are matters of the auditors' professional judgment based on audit objectives and audit risk." As such, it is our professional judgment that the expenditure of \$45,000 for an upgrade to a website owned and operated by an independent organization is not an allowable expenditure of VFRA funds.

Furthermore, according to Appendix 1 of *Government Auditing Standards*, "Auditors may consult with their own legal counsel to evaluate the results of tests." Our legal counsel has determined that costs associated with websites are permissible only when the website is owned by the VFRA and provides relief association members with safety training, education, and other information about the VFRA that is relevant to its members and the community it serves. The VFRA's response clearly states that specific information about the Harrisburg VFRA is not provided on this website.

We do not disagree with the VFRA's position that a state-wide website for all Pennsylvania volunteer firefighters may be a helpful tool, however, we disagree that the Harrisburg VFRA should bear the costs of such a website. Furthermore, when a website is owned by an independent organization and merely sponsored by a VFRA, the local VFRA loses the ability to control the content provided on the website, and therefore, runs the risk of the independent organization advocating its needs above the needs of the VFRA's in Pennsylvania.

Also, the VFRA's statement that it requested a separate opinion from the Department of Community and Economic Development ("DCED") regarding such an expense is, in our opinion, not supported by audit evidence. The Department believes it was the independent organization that contacted DCED initially to gain approval for this expenditure. However, it is the Department of the Auditor General that is required under Act 118 to determine whether an expenditure is authorized; DCED

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

merely provides pre-audit guidance. DCED's VFRA Online Database clearly states that DCED and its database provides advice only and it "assumes no responsibility for errors or omissions nor any liability for damages resulting from the use of information contained" on its database. Again, the final determination regarding the use of VFRA funds lies with the Auditor General and is contained in the opinion letter of our audit report.

Regarding the VFRA's position that the expenditure is adequately documented, again we rely on our auditors' professional judgment, as well as, prudent business practices. We have concluded that the Harrisburg VFRA should not have paid a \$45,000 invoice which included no other details other than a note stating "for website." We have determined that such documentation is not sufficient to support the expenditure.

As such, for the reasons stated above, we have determined that the expenditure of \$45,000 for costs associated with an upgrade to a website owned by an independent organization constitutes an unauthorized use of VFRA funds. Therefore, this finding will stand as presented.

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act², 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..."³.

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 \$8,646,530 (fair value) or 59% of the VFRA's cash and investments in stocks and managed futures/hedge 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.

² 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.

³ 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

**HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID**

While state aid was not distributed to the relief association during the current audit period, the relief association did receive state aid in 2011. A condition such as that reported in the finding may lead to a withholding of future state aid received, unless the finding is corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2010

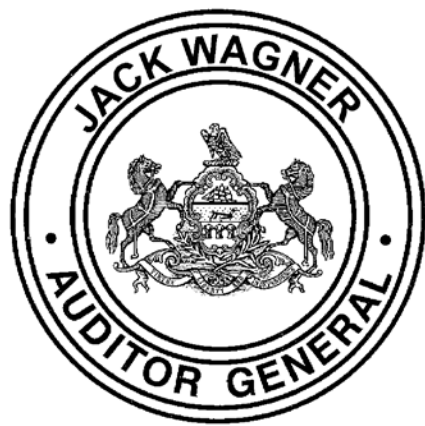
Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The 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	\$ 25,241
Death benefits	112,500
Relief benefits	10,900
Tokens of sympathy and goodwill	410
Total Benefit Services	<u>\$ 149,051</u>
Fire Services:	
Equipment purchased	\$ 296,695
Equipment maintenance	38,185
Training expenses	25,437
Fire prevention materials	5,895
Total Fire Services	<u>\$ 366,212</u>
Administrative Services:	
Officer compensation	\$ 130,932
Employee payroll taxes	60,156
Other administrative expenses	49,086
Total Administrative Services	<u>\$ 240,174</u>
Other Expenditures:	
Building expenses	\$ 138,053
Brokerage account fees	238,563
Unauthorized/undocumented expenditures	45,000
Total Other Expenditures	<u>\$ 421,616</u>



HARRISBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Harrisburg Volunteer Firefighters' Relief Association Governing Body:

Mr. William Hoyer, President

Mr. James Bailey, III, Secretary

Mr. John E. Fisher, Treasurer

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.