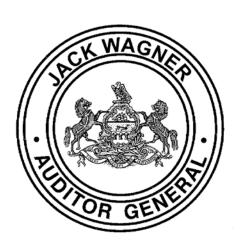


# HARWOOD FIRE COMPANY FIREMEN'S RELIEF ASSOCIATION LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

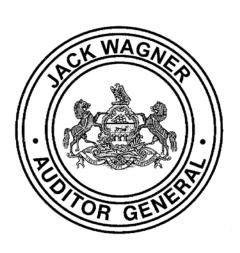
FOR THE PERIOD

**JANUARY 1, 2008 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 Harwood Fire Company Firemen's Relief Association, herein referred to as Harwood 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 Harwood Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

Municipality	County	2008	2009	2010
Hazle Township	Luzerne	\$9,105	\$8,585	\$9,663*

<sup>\*</sup>The 2010 state aid allocation from Hazle Township was not deposited by the relief association until February 7, 2011, subsequent to the audit period. Refer to Finding No. 1 in the Findings and Recommendations section of this report.

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

Harwood Volunteer Fire Company

Mr. Richard Dobash, President HARWOOD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION Luzerne County

We have conducted a compliance audit of the Harwood 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, 2008 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 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Harwood 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 Harwood Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Harwood 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, 2008 to December 31, 2010, found the Harwood Volunteer Firefighters' Relief Association, 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 findings listed below and discussed later in this report. The results of our tests also indicated the Harwood Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$16,162 and an investment balance with a fair value of \$23,300.

Finding No. 1 – Untimely Deposit of State Aid

Finding No. 2 – Unauthorized 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 Harwood Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

March 16, 2011

JACK WAGNER Auditor General

### HARWOOD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

#### Finding No. 1 – Untimely Deposit of State Aid

<u>Condition</u>: The volunteer firefighters' relief association did not deposit the 2010 state aid allocation it received from Hazle Township, in the amount of \$9,663, until February 7, 2011.

<u>Criteria</u>: The foreign fire insurance tax allocation was distributed to the municipal treasurer, who forwarded this state aid to the volunteer firefighters' relief association on October 12, 2010, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Upon receipt of the state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

<u>Cause</u>: According to the relief association officials, the state aid check was misplaced and was immediately deposited when it was found.

<u>Effect</u>: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

<u>Recommendation</u>: We recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

<u>Management's Response</u>: 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.

### HARWOOD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

#### <u>Finding No. 2 – Unauthorized Expenditure</u>

<u>Condition</u>: The relief association expended \$250 for the payment of the Harwood Fire Company's 2009 – 2010 bond policy, which is not authorized by Act 118.

<u>Criteria</u>: Act 118 at 35 Pa.C.S. § 7416(e)(12) states:

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

(12) To secure insurance against legal liability of the volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or 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) has been established whereby the DCED provides interpretation of Act 118. Costs associated with the fire company's bond policy has been deemed by DCED to not qualify as an insurance benefit which directly covers the volunteer firefighter; consequently, this expenditure for the fire company's bond policy is not authorized under Act 118.

<u>Cause</u>: Relief association officials were unaware that the expenditure for the fire company's bond policy is not authorized by Act 118.

<u>Effect</u>: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

Recommendation: We recommend the relief association be reimbursed \$250 for the unauthorized expenditure and that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) 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.

<u>Management's Response</u>: 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.

## HARWOOD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION OBSERVATION

#### <u>Observation – Diversification of Investments</u>

Within the parameters established by the Volunteer Firefighters' Relief Association Act<sup>1</sup>, it is the responsibility of the volunteer firefighters' relief association to invest its funds in a proper and prudent manner.

As these investments typically provide an income stream to the relief association for annual operations, it is generally sensible not to invest all VFRA money in one asset or asset class that places the principal at risk. In fact, state law requires VFRA's to "reasonably diversify investments, unless the [VFRA] reasonably determines that it is in the interest of the beneficiaries not to diversify..."<sup>2</sup>.

By diversifying investments, the VFRA can help preserve capital, increase liquidity and decrease volatility. Diversification means spreading one's money among different investments; asset allocation diversifies total investments among different investment classes, such as stocks, bonds, government securities, and cash equivalents.

As of December 31, 2010, the VFRA had \$23,300 (fair value) or 59% of the VFRA's cash and investments in mutual funds.

The VFRA management should periodically review its specific cash needs and investment goals and ensure that its investments are allocated and diversified to prudently meet those needs and goals.

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<sup>&</sup>lt;sup>1</sup> 53 P.S. § 8506(c)(1997). This provision incorporates the "prudent investor rule" of the Probate, Estates, and Fiduciaries Code, 20 Pa. C.S.A. §7201 et seq.

<sup>&</sup>lt;sup>2</sup> 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

#### HARWOOD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION ACCOMPANYING EXPENDITURE INFORMATION FOR THE PERIOD JANUARY 1, 2008 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	\$ 4,916
Death benefits	600
Total Benefit Services	\$ 5,516
Fire Services:	
Equipment purchased	\$ 20,338
Equipment maintenance	9,424
Training expenses	2,726
Total Fire Services	\$ 32,488
Administrative Services:	
Miscellaneous administrative expenses	\$ 885
Total Administrative Services	\$ 885

### HARWOOD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett Governor Commonwealth of Pennsylvania

Harwood Volunteer Firefighters' Relief Association Governing Body:

Mr. Richard Dobash, President

Mr. Justin Roslevich, Vice President

Mr. Scott Montes, Secretary

Mr. Theodore Kubitz, Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association.

Mr. Francis E. Boyarski, Secretary Hazle 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.