



**THE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF
PARKLAND, PENNSYLVANIA**

BUCKS 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 Volunteer Fireman's Relief Association of Parkland, Pennsylvania, herein referred to as Parkland 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. The Parkland Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Middletown Township	Bucks	\$91,210	\$87,158	\$96,141

BACKGROUND (Continued)

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

Parkland Fire Company No. 1



**Commonwealth of Pennsylvania
Department of the Auditor General
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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Michael Fox, President
PARKLAND VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Bucks County

We have conducted a compliance audit of the Parkland 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 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 Parkland 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 Parkland Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Parkland 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, 2008 to December 31, 2010, found the Parkland 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 findings listed below and discussed later in this report. The results of our tests also indicated the Parkland Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$313,248 and an investment balance with a fair value of \$2,174,806.

Finding No. 1 – Failure to Monitor Investment Activity

Finding No. 2 – Unauthorized Expenditures

Furthermore, a scope limitation on our audit exists, as detailed in the Observation section of this report.

The contents of this report were discussed with the management of the Parkland Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

April 27, 2011

EUGENE A. DEPASQUALE
Auditor General

PARKLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Failure to Timely Deposit Interest Income

By adopting internal control procedures to ensure the timely deposit of interest income received.

- Inadequate Administration of Mortgage

By receiving full payment of the outstanding balance of the mortgage for which the relief association was cited during the prior audit.

PARKLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure to Monitor Investment Activity

Condition: Relief association officials failed to adequately monitor relief association investment activity. Specifically, a relief association certificate of deposit (CD) was escheated to the Pennsylvania Department of Treasury (Treasury) in 2008. Relief association officials were made aware by Treasury that the CD was escheated in May of 2009. Under Pennsylvania regulations, property that has remained dormant for five years must be escheated to the State Treasury. The dormancy period is defined as a period in which the owner of the property has had no contact with the property. Per bank officials, although interest was being earned on the CD, such earned interest does not qualify as account activity; account activity is defined as contact or correspondence between the owner and the bank.

Criteria: Relief association officials have ultimate authority and the fiduciary responsibility for financial management and safeguarding of the relief association's funds. Prudent business practice dictates that relief association officials should periodically monitor the status of the relief association investment accounts.

Cause: Relief association officials failed to establish adequate internal controls to monitor investment activities. Relief association officials stated that they thought the CD automatically renewed upon maturing and that no contact with the bank was necessary.

Effect: The relief association's failure to monitor its investment accounts resulted in the CD being escheated. The escheated CD was valued at \$90,000 on December 31, 2007. During 2007, the relief association earned approximately \$280 in interest per month. The relief association earned no interest income during the period the CD was escheated.

However, subsequent to the audit exit conference, we were provided with a copy of a check from the State Treasury, dated May 31, 2011, in the amount of \$90,038, paid to the order of the relief association.

Recommendation: We recommend that relief association officials deposit these funds into a relief association account. In addition, we further recommend that relief association officials establish adequate internal controls to monitor all investment accounts and activities to ensure these funds are properly safeguarded.

Management's Response: Relief association management agreed with the finding and indicated they will take action to comply with the recommendation.

PARKLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Unauthorized Expenditure

Condition: The relief association expended \$2,362 for the purchase of tires for a fire company owned rescue vehicle which is not authorized by Act 118.

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

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

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

Costs associated with the purchase of tires for a fire company owned rescue vehicle do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials were unaware that the expenditure for the purchase of tires for a fire company rescue vehicle is not authorized by Act 118.

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 118.

Recommendation: We recommend the relief association be reimbursed \$2,362 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.

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.

PARKLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Scope Limitation

The Parkland Volunteer Firefighters' Relief Association (VFRA) does not maintain canceled or imaged checks. Without copies of canceled or imaged checks, we could not determine whether two VFRA officers authorized and signed the checks. While the VFRA provided bank statements, the VFRA failed to provide copies of canceled or imaged checks.

Act 118 at 35 Pa.C.S. § 7415(c)(3) states, in part, that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

Act 118 at 35 Pa.C.S. § 7418(a) states, in part, that the Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association . . . as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Generally Accepted Government Auditing Standards (GAGAS) Section No. 6.56 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 6.61(f) states, "Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity."

Our inability to review canceled checks or imaged checks constitutes a scope limitation on our audit.

PARKLAND 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	\$ 45,761
Death benefits	1,000
Relief benefits	7,099
Total Benefit Services	\$ 53,860
Fire Services:	
Equipment purchased	\$ 66,450
Equipment maintenance	59,113
Training expenses	45
Total Fire Services	\$ 125,608
Administrative Services:	
Officer compensation	\$ 900
Other administrative expenses	250
Total Administrative Services	\$ 1,150
Total Investments Purchased:	\$ 380,000



PARKLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Parkland Volunteer Firefighters' Relief Association Governing Body:

Mr. Michael Fox, President

Mr. James McFadden, Vice President/Trustee

Ms. Kristin Oettinger, Secretary

Mr. Robert Barnes, Treasurer

Mr. Scott Molle, Trustee

Mr. Tom Stressman, Trustee

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

Mr. Drew Kreiling, Secretary
Middletown 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.