

**PARKS TOWNSHIP VOLUNTEER FIREMEN'S
RELIEF ASSOCIATION OF PARKS TOWNSHIP,
ARMSTRONG COUNTY, PENNSYLVANIA**

ARMSTRONG COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2009

Released March 2013



**PARKS TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
PARKS TOWNSHIP, ARMSTRONG COUNTY, PENNSYLVANIA**

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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 Parks Township Volunteer Firemen's Relief Association of Parks Township, Armstrong County, Pennsylvania, herein referred to as Parks Township 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 Parks Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Parks Township	Armstrong	\$14,916	\$15,360	\$13,774

BACKGROUND (Continued)

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

Parks Township Volunteer Fire Department No. 1



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

Mr. Darryle Korb, President
PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Armstrong County

We have conducted a compliance audit of the Parks Township 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, 2007 to December 31, 2009.

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 Parks Township 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 Parks Township Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Parks Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, 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, 2007 to December 31, 2009, found the Parks Township Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the three findings contained in our prior audit report. However, the results of our audit found the Parks Township Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Parks Township 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 Parks Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, reported a cash balance of \$89,187. However, as a result of our inability to obtain independent confirmations of the two account balances included in the relief association's total investment balance, a scope limitation on our audit exists which prevented us from determining the fair value of the Parks Township Volunteer Firefighters' Relief Association's investment balance which was reported at \$30,389, as of December 31, 2009. This issue is detailed in Observation No. 1 in the Observations section of this report.

Finding No. 1 – Noncompliance with Prior Audit Recommendation –
Inadequate Minutes of Meetings

Finding No. 2 – Failure to Secure Ownership Rights of Assets

We also noted another matter that has been included in the following observation and also detailed in the Observations section of this report.

Observation No. 2 – Diversification of Investments

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

October 6, 2010

EUGENE A. DEPASQUALE
Auditor General



PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Inadequate Signatory Authority for the Disbursement of Funds

By requiring more than one signature on all negotiable instruments.

- Failure to Obtain a Federal Tax Identification Number

By obtaining a federal tax identification number and furnishing it to the financial institution in which the relief association maintains funds.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Parks Township Volunteer Firefighters' Relief Association has not complied with one of the three prior audit findings. This finding, which was cited in our two prior audit reports, is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

We are concerned with the volunteer firefighters' relief association's continued failure to adhere to our previously reported audit recommendation. The association management should strive to implement the recommendation and corrective action noted in this audit report.

PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Minutes of Meetings

Condition: As cited in our two prior audit reports, the relief association, again, failed to maintain detailed minutes of meetings as required by Act 118. Specifically, the relief association's minutes did not address all of the financial-related transactions that occurred during the audit period.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

. . . must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

Cause: While notified of this condition during our prior two audits, relief association officials, again, neglected to maintain detailed minutes of meetings as required by Act 118.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We, again, recommend the relief association maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. 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.

PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Secure Ownership Rights of Assets

Condition: As of December 31, 2009, the relief association had two investment accounts with a reported total balance of \$30,389. However, as detailed in Finding No. 3 of this report, we could not confirm this total reported balance, resulting in a scope limitation on our audit. Furthermore, these two investment accounts were inappropriately registered under the fire company's name rather than the relief association's name. These two investment accounts represent 25 percent of the relief association's reported total assets.

Criteria: Sound business practice dictates that the relief association maintain ownership of all monetary assets as a means of safeguarding its assets from unauthorized use or disposition.

Cause: The relief association failed to establish adequate internal control procedures to ensure that the monetary assets are registered with the relief association's name and federal tax identification number.

Effect: As a result of the investment accounts being inappropriately registered under the fire company's federal tax identification number, these assets are not owned by the relief association and, therefore, were not properly safeguarded.

Recommendation: We recommend the relief association secure ownership rights to all of its monetary assets. This requirement can be accomplished by ensuring that all investment accounts are registered under the relief association's name and federal tax identification number. 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.

PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATIONS

Observation No. 1 – Scope Limitation

We could not confirm the Parks Township Volunteer Firefighters' Relief Association's (VFRA) total investment balance reported at \$30,389, as of December 31, 2009. Two brokerage accounts, totaling \$9,649 and \$20,740, could not be confirmed. Three requests for independent confirmations of each of these account balances were made to the financial institutions from which the VFRA purchased these investments. While the VFRA provided December 31, 2009 financial institution account statements detailing both account balances, the two financial institutions failed to provide independent confirmations of the individual account balances.

Act 118 at 35 Pa.C.S. § 741(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. 7.55 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 706(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."

Statement of Auditing Standards (SAS) No. 106 requires auditors to request independent confirmations of investment balances directly from the financial institutions from which the VFRA purchased the investments.

The two respective financial institutions failed to respond to our requests for confirmations.

Our inability to confirm the VFRA's investment balance constitutes a scope limitation on our audit, as the scope limitation prevented us from determining the fair value of the VFRA's investment balance reported at \$30,389, as of December 31, 2009.

PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATIONS

Observation No. 2 – 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, 2009, the VFRA had \$30,389 (reported, but unconfirmed balance - see Finding No. 3 in the Findings and Recommendations section of this report) or 25% of the VFRA's cash and investments in mutual funds. Furthermore, as detailed in Finding No. 2 of this report, these investments were inappropriately registered under the name of another entity.

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).

PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2009

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	\$ 618
Total Benefit Services	\$ 618
Fire Services:	
Equipment purchased	\$ 21,527
Equipment maintenance	125
Training expenses	103
Total Fire Services	\$ 21,755
Administrative Services:	
Miscellaneous administrative expenses	\$ 2,005
Total Administrative Services	\$ 2,005

PARKS TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Parks Township Volunteer Firefighters' Relief Association Governing Body:

Mr. Darryle Korb, President

Mr. Robert Monheim, Vice President

Ms. Chrystal Weister, Secretary

Mr. Jay Start, Treasurer

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

Ms. Mary E. Ralston, Secretary
Parks 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.