



**POINT MARION FIREMEN'S RELIEF ASSOCIATION OF  
POINT MARION, PENNSYLVANIA**

**HEREIN REFERRED TO AS:**

**POINT MARION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**FAYETTE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006 TO DECEMBER 31, 2008**



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## BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended 53 P.S. § 895.701 et seq. (commonly referred to as Act 205), are properly expended.

The Point Marion Volunteer Firefighters' Relief Association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations, which is or are recognized as providing the service to the municipality.

BACKGROUND (Continued)

The Point Marion Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Nicholson Township	Fayette	\$3,302	\$3,351	\$3,457*
Point Marion Borough	Fayette	\$5,816	\$5,905	\$6,066*
Springhill Township	Fayette	\$6,819	\$7,058	\$7,308*

\* However, the 2008 state aid allocations from Nicholson Township and Point Marion Borough were not deposited until January 9, 2009, and the 2008 state aid allocation from Springhill Township was not deposited until February 12, 2009.

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

Point Marion Volunteer Fire Company

Mr. Frank Neighbors, President  
POINT MARION VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Fayette County

We have conducted a compliance audit of the Point Marion Volunteer Firefighters' Relief Association pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2006 to December 31, 2008.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the finding 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 Point Marion Volunteer Firefighters' Relief Association's administration of state aid and accumulated funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer

firefighters' relief association's internal controls as they relate to the association's compliance with 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 Point Marion Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Point Marion Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, 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, 2006 to December 31, 2008, found, in all significant respects, the Point Marion Volunteer Firefighters' Relief Association took appropriate corrective action to address the finding contained in our prior audit report and received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report. The results of our tests also indicated the Point Marion Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$1,738 and an investment balance with a fair value of \$76,722.

Finding No. 1 – Failure to Define Discretionary Benefits

Finding No. 2 – Untimely Deposit of State Aid

We also noted another matter that has been included in the following observation discussed later in this report.

Observation – Diversification of Investments

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

June 8, 2009

JACK WAGNER  
Auditor General



POINT MARION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Point Marion Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Inadequate Minutes of Meetings

By maintaining minutes of all association meetings.

We commend the relief association management for their efforts in complying with the finding and recommendation contained in the prior audit report. The association management should strive to remain in compliance with all applicable state laws, contracts, bylaws, and administrative procedures.

POINT MARION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure to Define Discretionary Benefits

Condition: The relief association did not sufficiently define benefits that were being offered to its members. During the audit period, the relief association paid \$5,000 in the form of death benefits to one member's beneficiary, while another beneficiary was paid a \$10,000 death benefit. While it appears that the death benefit offered during the current audit period may have been based on age and years of service, the membership roster does not specify a membership date for each relief association member. As such, we cannot determine the amount that should be paid on behalf of each member.

In addition, the relief association's membership roster identifies various classes of members including probationary, active, inactive, honorary, military and veteran. However, there was no formal written policy provided to define the various classes of members and the specific benefits being offered to each class. The relief association constitution and bylaws also make reference to various classes of members including probationary, active, honorary, veteran and disabled, but this governing document also does not define the membership classes.

Also, the relief association's bylaws reference a point system. In the past, the relief association had maintained records to account for points accumulated for its members and used the point system as a basis for paying certain benefits offered by the relief association. For 2008, we were provided a monthly points sheet, but there was not an accumulation of points for any of the members listed. Furthermore, the relief association has not established formal policies to govern how points are rewarded and accumulated.

Criteria: Act 84 at 53 P.S. § 8503 (3) states in part, that funds shall be available:

- (3) To provide, either by insurance or by the operation of a beneficial fund, for the payment of a sum certain to the designated beneficiaries of a participating member in such fund following the death of such member for any cause, and **to establish criteria which members must meet in order to qualify** as participants in such death benefit fund (emphasis added).

Furthermore, prudent business practice dictates that when a relief association offers any discretionary benefits provided by Act 84, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws or a formal relief association policy. The formal policy is necessary to clarify the types and amounts of benefits offered to its membership, as well as the criteria to be met in order to receive the benefits.

POINT MARION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

If a point system is being used to determine the amount of discretionary benefits offered to relief association members, the relief association should adopt formal policies governing the award and accumulation of points so that the points and benefits are offered equally to all members. Again, such a formal policy should be documented in the bylaws, a separate formal written association policy, or in the official meeting minutes.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that relief association disbursements are made in accordance with Act 84.

Effect: As a result of the relief association's failure to formally define the discretionary benefits, the membership was prevented from being aware of the benefits being offered and the various classes of members being offered benefits. The absence of a formal policy may lead to benefits not being equally offered to all members and has increased the risk of unauthorized expenditures.

Recommendation: We recommend the relief association:

- Amend its bylaws to define the various classes of members and the specific benefits being offered to each specific membership classification. If the relief association is not offering benefits equally to all members it should clearly distinguish those specific classes of members entitled to benefits and those specific classes of members not entitled to benefits as well as the varying coverage amounts being offered; and
- Review and update its roster of the association's membership to ensure that the roster includes each member's membership date, therefore, corroborating each member's eligibility for those benefits that are based on years of service.

In addition, we recommend the relief association officials ensure they are adhering to the provisions included in their constitution and bylaws. If such constitution and/or bylaw provisions are deemed to be obsolete, the respective documents should be amended to properly authorize the current operating procedures of the relief association.

We also recommend that relief association officials become familiar with Act 84 at 53 P.S. § 8501 et. seq. 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 recommendations.

POINT MARION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Untimely Deposit of State Aid

Condition: The volunteer firefighters' relief association did not deposit the 2008 state aid allocations it received from Nicholson Township, Point Marion Borough, and Springhill Township in a timely manner.

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2008	Nicholson Township	\$ 3,457	10/17/08	01/09/09
2008	Point Marion Borough	\$ 6,066	11/21/08	01/09/09
2008	Springhill Township	\$ 7,308	10/15/08	02/12/09

Criteria: The foreign fire insurance tax allocations were distributed to the municipal treasurer, who forwarded this state aid to the volunteer firefighters' relief association on the dates mentioned above, 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.

Cause: The relief association failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner.

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

Recommendation: 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.

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.

POINT MARION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
OBSERVATION

Observation – Diversification of Investments

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, 2008, the VFRA had \$76,722 (fair value) or 98% of the VFRA's cash and investments in stocks and 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>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>2</sup> 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

POINT MARION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

Act 84 at 53 P.S. § 8502(1) states, in part, that:

A volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds. All expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 80,311
Death benefits	20,000
Total Benefit Services	\$ 100,311
Administrative Services:	
Officer compensation	\$ 300
Other administrative expenses	4,598
Total Administrative Services	\$ 4,898
Total Investments Purchased	\$ 118,282

POINT MARION VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Point Marion Volunteer Firefighters' Relief Association Governing Body:

Mr. Frank Neighbors, President

Mr. Terry O'Neil, Vice President

Mr. Robert Swanger, Secretary

Mr. Harold L. Whyel, Treasurer

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

Mr. Richard A. Jarrett, Secretary  
Nicholson Township

Mr. Arthur Strimel, Secretary  
Point Marion Borough

Ms. Linda M. Smith, Secretary  
Springhill 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](http://www.auditorgen.state.pa.us).