



FIREMEN'S RELIEF ASSOCIATION OF STATE COLLEGE, PENNSYLVANIA

HEREIN REFERRED TO AS:

STATE COLLEGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

CENTRE 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 State College 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 State College 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>
Benner Township	Centre	\$ 1,509	\$ 1,532	\$ 1,582
College Township	Centre	\$ 82,920	\$ 84,759	\$ 87,999
Ferguson Township	Centre	\$120,841	\$123,914	\$129,081
Patton Township	Centre	\$ 95,294	\$ 97,806	\$102,178
State College Borough	Centre	\$206,192	\$208,631	\$214,494

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

Alpha Fire Company of State College, Pennsylvania

Mr. Richard S. Harris, President
STATE COLLEGE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Centre County

We have conducted a compliance audit of the State College 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 State College 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 State College Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the State College 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 State College Volunteer Firefighters' Relief Association 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 indicated the State College Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$1,177,681 and an investment balance with a fair value of \$1,893,525.

Finding No. 1 – Unauthorized Expenditures

Finding No. 2 – Overpayment of Relief Expenditures

Finding No. 3 – Insufficient Officer's Bond Coverage

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

May 29, 2009

JACK WAGNER
Auditor General

STATE COLLEGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative roster of all equipment owned.

STATE COLLEGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items that are not authorized by Act 84:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
12/05/06	6941	Personal insurance deductible	\$ 100
03/06/07	7011	Personal insurance deductible	500
04/18/07	7060	Personal insurance deductible	250
06/06/08	7465	Personal insurance deductible	250
Total			<u>\$ 1,100</u>

Criteria: Act 84 at 53 P.S. § 8506(e)(2 and 12) states:

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

- (2) To purchase contracts of insurance which shall at the least afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and which may also provide in the order named, (i) for payments to the widow or other dependents of a member in the event of his death, (ii) for protection of active firefighters against disease, (iii) for the replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches, and the like, where such devices have been lost or damaged while the owner was engaged in the fire service or where the need for such devices arises because of functional impairment attributable to participation in the fire service, (iv) for the repair or replacement if necessary of articles of clothing or pocket pagers damaged in the course of participation in the fire service, and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

- (12) To secure insurance against the legal liability of the volunteer firefighters for loss and expense from claims arising out of the performance of their official, authorized duties while going to, returning from or attending fires or while performing their duties as special fire police.

STATE COLLEGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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) had been established whereby the DCED provided interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." Personal insurance deductibles have been deemed by DCED to not qualify as insurance benefits that directly cover the volunteer firefighter; consequently, these disbursements are not authorized under Act 84.

Cause: Relief association officials were unaware that the aforementioned expenditures were not authorized by Act 84.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 84.

However, subsequent to the audit period, on May 19, 2009, the relief association received reimbursement in the amount of \$1,100 from the Alpha Fire Company for the unauthorized expenditures.

Recommendation: We recommend the relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) 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 have received reimbursement, deposited the funds, and will comply with the recommendation.

STATE COLLEGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Overpayment of Relief Expenditures

Condition: On June 19, 2008, the relief association made an overpayment in the amount of \$1,465 for several firefighters' physical exams. The services paid for with the \$1,465 disbursement were erroneously overpaid by \$611 because the services provided were billed twice by the vendor under the same invoice number. The first invoice received was for \$611 but was later revised by the vendor and a second invoice was subsequently issued in the amount of \$854. Rather than paying the adjusted amount of \$854, the relief association paid both the \$611 and \$854 amounts, thereby overpaying the actual amount due by \$611.

Criteria: Adequate accounting and internal control procedures should include procedures to prevent erroneous payment of invoices.

Cause: The volunteer firefighters' relief association failed to establish internal control procedures which would require that all invoices or other billing documents be effectively reviewed and compared to prevent erroneous payments.

Effect: As a result of this erroneous overpayment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

However, subsequent to the audit period, on May 11, 2009, the relief association deposited the reimbursement from the vendor, in the amount of \$611, for the erroneous overpayment.

Recommendation: We recommend the relief association establish accounting and internal control procedures to monitor future relief association expenditures to prevent erroneous payments. 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.

STATE COLLEGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Insufficient Officer's Bond Coverage

Condition: The relief association did not maintain a bond in a sufficient amount to cover the authorized disbursing officer. The relief association's bond coverage was \$500,000 each for the president, secretary, and treasurer; however, as of December 31, 2008, the cash assets totaled \$1,177,681.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary, or otherwise, shall be bonded by corporate surety for the faithful performance of his duties. The amount of such bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on such bond shall be a proper charge against the funds of the association.

Cause: Relief association officials failed to monitor the cash balance to ensure the officer's bond coverage was in compliance with Act 84 provisions.

Effect: As a result of the disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

However, subsequent to the audit period, on May 6, 2009, the relief association increased its bond coverage to an amount greater than the total of the cash balance.

Recommendation: We recommend the relief association officials monitor the cash balance to ensure that unexpected events affecting current funds do not again result in an insufficient officer's bond coverage. 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.

STATE COLLEGE 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	\$ 513,766
Death benefits	170,668
Relief benefits	60,096
Tokens of sympathy and goodwill	6,393
Total Benefit Services	\$ 750,923
Fire Services:	
Equipment purchased	\$ 648,807
Equipment maintenance	74,625
Training expenses	68,096
Total Fire Services	\$ 791,528
Administrative Services:	
Officer compensation	\$ 5,400
Other administrative expenses	58,986
Total Administrative Services	\$ 64,386
Total Investments Purchased	\$ 300,000

STATE COLLEGE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

State College Volunteer Firefighters' Relief Association Governing Body:

Mr. Richard S. Harris, President

Mr. Carmine Prestia Jr., Vice President

Mr. Lester Griel, III, Secretary

Mr. Dennis E. Hampton, Treasurer

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

Ms. Sharon Royer, Secretary
Benner Township

Mr. Adam T. Brumbaugh, Secretary
College Township

Mr. Mark A. Kunkle, Secretary
Ferguson Township

Ms. Kimberly Fragola, Secretary
Patton Township

Ms. Cynthia Hanscom, Secretary
State College Borough

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.