



**ADAMS AREA FIREMEN'S RELIEF ASSOCIATION**

**HEREIN REFERRED TO AS:**

**ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**BUTLER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2005 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 Adams Area 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 Adams Area Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Richland Township	Allegheny	\$17,941	\$17,931	\$17,833	\$17,833
Adams Township	Butler	\$25,339	\$27,054	\$56,350	\$61,062
Mars Borough	Butler	\$ *	\$ *	\$ 9,846	\$10,114
Seven Fields Borough	Butler	\$ *	\$ *	\$22,202	\$19,653
Valencia Borough	Butler	\$ 2,137	\$ 2,309	\$ 2,525	\$ 2,882**

\* The Adams Area Volunteer Firefighters' Relief Association did not receive any state aid allocations from Mars Borough or Seven Fields Borough during the years 2005 and 2006.

\*\* The Adams Area Volunteer Firefighters' Relief Association received an allocation of state aid from Valencia Borough in 2008 in the amount of \$2,882 but the funds were not deposited into a relief association account until June 15, 2009.

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

Adams Area Fire District

Mr. Jeffrey A. Liberatore, President  
ADAMS AREA VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Butler County

We have conducted a compliance audit of the Adams Area 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, 2005 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 Adams Area 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 applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objectives. We also tested transactions, confirmed the Adams Area Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2008, with the custodians of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our audit for the period January 1, 2005 to December 31, 2008, found, in all significant respects, the Adams Area 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 Adams Area Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$218,609 and an investment balance with a fair value of \$100,650.

Finding No. 1 – Failure to Deposit State Aid

Finding No. 2 – Undocumented Expenditures

Finding No. 3 – Failure to Maintain Officer's Bond Coverage

Finding No. 4 – Failure to Maintain Minutes of Meetings

Finding No. 5 – Failure to Define Discretionary Benefits

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 Adams Area Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

June 10, 2009

JACK WAGNER  
Auditor General



ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure to Obtain a Pennsylvania Sales Tax Exemption Number

By receiving a Pennsylvania sales tax exemption number and furnishing it to all vendors from which the relief association purchases equipment.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure to Deposit State Aid

Condition: The relief association did not deposit the 2008 state aid distributed by Valencia Borough, in the amount of \$2,882, into a relief association account.

Criteria: The foreign fire insurance tax allocation was distributed to the municipal treasurer, who forwarded this state aid to the volunteer firefighters' relief association treasurer 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 timely deposited into a relief association account.

Cause: The relief association failed to establish internal control procedures to ensure that all state aid received is deposited into a relief association account. According to the relief association treasurer, the 2008 state aid that was intended for the relief association was not timely deposited into a relief association account because it was erroneously deposited into the affiliated fire company's account

Effect: As a result of the state aid not being deposited, the relief association was unable to use the funds for general operating expenses or for investment purposes. In addition, the failure to deposit receipts in a timely manner can lead to a greater risk that funds could be lost or misappropriated.

However, subsequent to the audit period, on June 10, 2009, after bringing this matter to the relief association's attention, the relief association located and, on June 15, 2009, deposited the \$2,882 of state aid that was intended for the relief association.

Recommendation: We recommend the relief association establish accounting and internal control procedures to ensure that all state aid is received in a timely manner and deposited into a relief association account. 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.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

Date	Check No.	Description	Amount
03/10/05	1709	Fire Chief's Association	\$ 125
03/11/05	1711	Fire Chief's Association	360
04/19/05	1714	Community college	120
04/20/05	1715	Fire Chief's Association	35
10/11/05	1733	Community college	15
12/26/05	1738	Community college	75
01/14/06	1743	Relief association member	91
06/14/06	1756	Relief association member	100
09/13/06	1763	Relief association member	100
01/20/07	1767	Relief association member	176
02/14/07	1772	Relief association member	60
03/14/07	1775	Community college	120
05/14/07	1785	Community college	192
05/14/07	1786	Community college	165
Total			<u>\$ 1,734</u>

Criteria: Act 84 at 53 P.S. § 8507(a) states, in part:

The Department of the Auditor General shall have the power, and its duty shall be, to audit the accounts and records of every volunteer firefighters' relief association receiving any money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No 205), known as the "Municipal Pension Plan Funding Standard and Recovery Act," as amended, as far as may be necessary to satisfy the department that the money received was expended or is being expended for no purpose other than that authorized by this act.

Without adequate supporting documentation, such as invoices and training certificates, where applicable, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Lack of supporting documentation, such as invoices and training certificates, where applicable, made it impossible to determine if the expenditures were made in accordance with Act 84.

However, on June 23, 2008 and June 11, 2009, the relief association received reimbursements from the affiliated fire company in amounts totaling \$1,734 for the above undocumented expenditures.

Recommendation: We recommend that the relief association officials maintain supporting documentation for all 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.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Maintain Officer's Bond Coverage

Condition: The relief association failed to maintain bond coverage on the disbursing officer as required by Act 84. Specifically, the relief association's bond coverage lapsed on September 27, 2007, and the relief association was without bond coverage from September 27, 2007 to March 12, 2008. The relief association did obtain bond coverage on March 12, 2008, in the amount of \$100,000; however, it was not maintained in an amount sufficient to cover the balance of cash assets. On January 1, 2009, the bond coverage limit was still at \$100,000 while cash assets were \$206,711.

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: The relief association officers were aware of the necessity to maintain bond coverage, but failed to monitor its bond policy expiration dates and balance of cash assets to ensure adequate protection of relief association assets.

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

However, subsequent to the audit period, on March 3, 2009, the relief association decreased its cash balance to an amount below the bond coverage limit.

Recommendation: We recommend the relief association officer's monitor its cash balances and bond policy expiration dates to insure adequate and proper protection, as required by Act 84. 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.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure to Maintain Minutes of Meetings

Condition: The relief association did not maintain minutes of meetings, as required by Act 84, for meetings that were to have taken place during the years 2005 and 2006, and January through April 2007.

Criteria: Act 84 at 53 P.S. § 8505(a) states, in part, that the relief association:

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

Cause: Relief association officials were aware that maintaining minutes of meetings was required by Act 84 but were unable to provide the meeting minutes at the time of the audit.

Effect: The failure to maintain minutes of meetings prevented the verification as to whether relief association business was presented before the membership for approval.

Recommendation: We recommend relief association officials maintain a permanent record of all relief association meetings as required by Act 84. The minutes should include an adequate record 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.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure to Define Discretionary Benefits

Condition: The relief association did not formally define and approve discretionary benefits that were being offered to its members. During the current audit period, on February 9, 2005 and August 9, 2006, the relief association made two disbursements totaling \$300 in the form of discretionary benefits. We were informed that these disbursements were used to assist two members having financial difficulties. Although these expenditures were authorized by Act 84, the types, amounts, and criteria to be met before receiving the benefits were not described in a formal policy approved by the relief association membership.

Criteria: Act 84 at 53 P.S. § 8503 (3) and (5) 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; and
- (5) To provide financial assistance to volunteer firefighters who, after having actively participated in the fire service **for a specified minimum term**, are no longer physically able to continue such participation and are in need of financial assistance. (emphasis added)

Furthermore, prudent business practice dictates that when a relief association offers any type of discretionary benefit provided by Act 84, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal relief association policy, or in the official meeting minutes. The formal approval 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.

Cause: Relief association officials were not aware of the specific stipulations of Act 84 and did not perceive the formal approval to be an essential internal control in safeguarding relief association assets. As a result, they failed to establish procedures to formally define the benefits and related criteria for the benefits offered to members.

Effect: The relief association's failure to formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the relief association.

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Recommendation: We recommend relief association officials formally define and document the criteria of the discretionary benefits being offered to its membership. The formal approval of benefits and related criteria should be documented in the bylaws, a policy statement, or in the official meeting minutes, and should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the criteria to be met before receiving the benefit. Furthermore, all approved discretionary benefits should be in accordance with provisions of Act 84. 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.



ADAMS AREA 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 \$100,650 (fair value) or 32% 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>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).

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2005 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	\$ 34,605
Death benefits	1,500
Relief benefits	350
Tokens of sympathy and goodwill	56
Total Benefit Services	\$ 36,511
Fire Services:	
Equipment purchased	\$ 112,172
Equipment maintenance	24,736
Training expenses	7,733
Total Fire Services	\$ 144,641
Administrative Services:	
Miscellaneous administrative expenses	\$ 1,705
Total Administrative Services	\$ 1,705
Other Expenditures:	
Principal payments on lease-financing	\$ 35,482
Interest payments on lease-financing	1,207
Undocumented Expenditures	1,734
Total Other Expenditures	\$ 38,423

ADAMS AREA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Adams Area Volunteer Firefighters' Relief Association Officers:

Mr. Jeffrey A. Liberatore, President

Ms. Nancy McCormick, Secretary

Mr. Joe Bauer, Treasurer

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

Mr. Dean E. Bastianni, Secretary  
Richland Township

Ms. Janet L. Lubbert, Secretary  
Adams Township

Ms. Etha Wolfe, Secretary  
Mars Borough

Mr. Thomas B. Smith, Secretary  
Seven Fields Borough

Ms. Ann Squire, Secretary  
Valencia 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](http://www.auditorgen.state.pa.us).