



PARKER CITY VOLUNTEER FIREMENS RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

PARKER CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

ARMSTRONG 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 Parker City 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 Parker City 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>
Hovey Township	Armstrong	\$ 273	\$ 296	\$ 318
Parker City	Armstrong	\$3,771	\$3,765	\$3,855
Allegheny Township	Butler	\$ 927	\$ 956	\$ 986
Parker Township	Butler	\$ 982	\$ 993	\$1,021

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

Parker City Volunteer Fire Department

Mr. Gerald Laver Jr., President
PARKER CITY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Armstrong County

We have conducted a compliance audit of the Parker City 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 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.

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 Parker City 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 Parker City Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Parker City 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 Parker City Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the finding discussed later in this report. The results of our tests indicated the Parker City Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$16,550 and an investment balance with a fair value of \$2,678.

Finding – Noncompliance With Prior Audit Recommendation –
Undocumented Loan

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

July 28, 2009

JACK WAGNER
Auditor General

PARKER CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

- Undocumented Expenditures

Although the Parker City Volunteer Firefighters' Relief Association received reimbursement from the Parker City Volunteer Fire Department on September 29, 2006, in the amount of \$459, for the undocumented expenditures made during the prior audit period, the relief association again dispersed funds that were not sufficiently documented. The disbursement in the current audit period was in the form of an undocumented loan to the affiliated fire department. This is discussed in detail in the finding contained in the Finding and Recommendation section of this report.

PARKER CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation –
Undocumented Loan

Condition: On February 6, 2007, the relief association made a loan to the Parker City Fire Department in the amount of \$9,027 without a formal written loan agreement. The purpose of the loan was to assist the fire department with paying for repair expenses on fire department owned equipment. At the time the loan was issued, the relief association did prepare an amortization schedule to establish the repayment terms but the conditions and stipulations of the loan were not established in writing and the outstanding balance was not secured with adequate collateral as required by Act 84 to properly safeguard the relief association's investment.

Criteria: Act 84 at 53 P.S. § 8506(c)(3) states, in part:

All, or any part of the funds of any volunteer firefighters' relief association may be invested:

In any obligation of an incorporated fire company which obligation is **secured by assets of the [fire] company having capital value equal to at least one hundred fifty percent of the amount of the obligation at the time it is made (emphasis added)**, and is subject to provisions which will amortize such loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least equal to one hundred fifty percent of the balance remaining due.

Cause: Relief association officials were unaware that the loan to the fire department must be documented and adequately secured as required by Act 84.

Effect: Failure to adequately document the loan and adequately secure the outstanding balance with sufficient collateral placed the investment at greater risk.

However, subsequent to the audit period, on September 15, 2009, the loan was fully liquidated.

Recommendation: We recommend that for all future loans issued by the relief association the relief association prepare a formal written loan agreement, signed by both parties, specifying the conditions and stipulations of the loan including the payment schedule and interest rate. All future loans must also be secure with adequate collateral to protect the investment as required by Act 84 at 53 P.S. § 8506(c)(3). 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.

PARKER CITY 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	\$ 9,382
Total Benefit Services	\$ 9,382
Fire Services:	
Equipment purchased	\$ 9,828
Equipment maintenance	725
Training expenses	1,395
Fire prevention materials	1,520
Total Fire Services	\$ 13,468
Total Investments Purchased	\$ 9,027



PARKER CITY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Parker City Volunteer Firefighters' Relief Association Governing Body:

Mr. Gerald Laver Jr., President

Mr. Richard W. Farrington, Vice President

Ms. Traci Bowser, Secretary

Mr. William R. McCall, Treasurer

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

Ms. Robin Farrington, Secretary
Allegheny Township

Ms. Lisa B. Bartley, Secretary
Hovey Township

Ms. Carol A. Bowser, City Clerk
Parker City

Ms. Vickie Steiner, Secretary
Parker 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.