



**THE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF PARKLAND,  
PENNSYLVANIA**

**HEREIN REFERRED TO AS:**

**PARKLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**BUCKS COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006 TO DECEMBER 31, 2007**



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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 Parkland 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. The Parkland Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>
Middletown Township	Bucks	\$82,405	\$89,306

BACKGROUND (Continued)

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

Parkland Fire Company No. 1

Mr. Michael Fox, President  
PARKLAND VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Bucks County

We have conducted a compliance audit of the Parkland 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, 2007.

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 Parkland 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 Parkland Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2007, 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, 2006 to December 31, 2007, found, in all significant respects, the Parkland 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 Parkland Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$319,269 and an investment balance with a fair value of \$1,788,996.

Finding No. 1 – Inadequate Administration of Mortgage

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Timely Deposit Interest Income

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

July 17, 2008

JACK WAGNER  
Auditor General



PARKLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure to Maintain a Federal Tax Identification Number

By reactivating its 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 Parkland Volunteer Firefighters' Relief Association has not complied with the prior audit finding. This issue is further discussed in the following finding noted in the Findings and Recommendations section of this report:

- Untimely Deposit of Interest Income

Although the relief association deposited the interest income check from the prior audit, they did not establish adequate accounting and internal control procedures to ensure the timely deposit of interest income. This lack of effective internal controls again resulted in an interest check received by the relief association during the audit period, in the amount of \$1,743, not being deposited by the relief association. This is discussed in detail in Finding No. 2 contained in the Findings and Recommendations section of this report.

We are concerned with the volunteer firefighters' relief association's failure to correct a previously reported audit finding. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

PARKLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Administration of Mortgage

Condition: The relief association invested its funds through a mortgage granted to a relief association member. During the current audit period, we detected the following material internal control weaknesses related to the administration of this mortgage:

- Proof of property tax payments was not maintained.
- Proof of hazard insurance premium payments was not maintained

Criteria: Act 84 at 53 P.S. § 8506(c)(1) states, in part:

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

In any form of investment named in the Fiduciaries Act of 1949, as amended, including first mortgages. Such first mortgages insuring repayment of loans by relief associations must provide for a minimum interest payment of three percent and not exceed eighty percent of the appraised value of the real property covered by the mortgage.

Prudent business practice dictates that proof of property tax and hazard insurance premium payments should be maintained.

Cause: The relief association failed to implement sufficient internal controls to ensure prudent administration of investments. The relief association officials were unaware of the relief association's ineffective controls over the administration of relief association mortgages.

Effect: The lack of sufficient internal controls to properly account for property tax payments and hazard insurance premium payments places this investment at greater risk.

Recommendation: We recommend the relief association adopt the following internal controls related to the administration of mortgages:

- Require mortgagee to submit proof that property taxes or escrow property taxes are paid.
- Require mortgagee to submit proof that hazard insurance premiums or escrow premiums are paid.

PARKLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

The relief association officers should consider consulting with a bank or other financial institution to assist with the proper accounting for mortgages issued by the relief association. The relief association should also consider instituting mortgage insurance to adequately insure outstanding mortgage balances. If these conditions cannot be met, the relief association should consider liquidating the mortgage. 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.

PARKLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Timely Deposit Interest Income

Condition: As cited in the prior audit report, the volunteer firefighters' relief association did not timely deposit numerous interest income checks received by the relief association in the prior audit period. The relief association did deposit the income checks reported in the prior audit report but did not implement procedures to ensure the timely deposit of interest income. During the current audit, we detected an interest income check distributed by Sovereign Bank dated December 22, 2007, in the amount of \$1,743, that was not timely deposited into a relief association account. This interest income check has not been deposited as of the date of this report.

Criteria: Upon receipt of the interest income check, the relief association should ensure the funds are timely deposited into a relief association account.

Cause: While notified of this deficiency in the prior audit report, the relief association failed to establish internal control procedures to ensure that all income received is timely deposited into a relief association account.

Effect: As a result of the interest income not being timely 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 July 21, 2008, the relief association deposited the interest income check into its account.

Recommendation: We again recommend the relief association establish accounting and internal control procedures to ensure that all interest income received is timely 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.

PARKLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2007

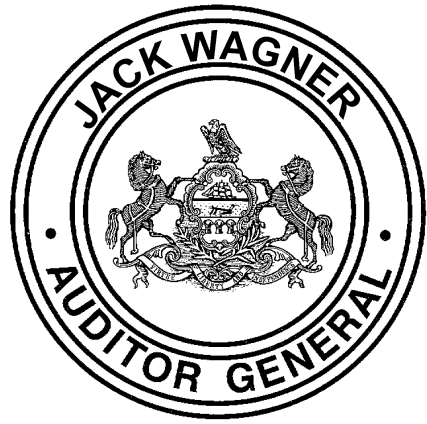
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 38,832
Total Benefit Services	\$ 38,832
Fire Services:	
Equipment purchased	\$ 55,834
Equipment maintenance	23,818
Training expenses	775
Total Fire Services	\$ 80,427
Administrative Services:	
Officer compensation	\$ 500
Other administrative expenses	3,454
Total Administrative Services	\$ 3,954



PARKLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Parkland Volunteer Firefighters' Relief Association Officers:

Mr. Michael Fox, President

Ms. Kristin Stressman, Secretary

Mr. Robert Barnes, Treasurer

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

Ms. Kathy Heuer, Secretary  
Middletown 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).