

**THE VOLUNTEER FIREMENS' RELIEF ASSOCIATION OF THE MORTON
FIRE COMPANY #1**

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

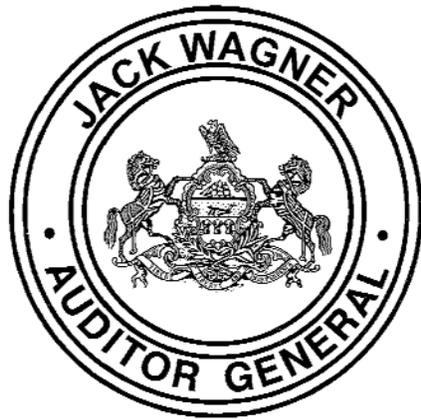
FOR THE PERIOD

JANUARY 1, 2007 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, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, 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 Volunteer Firemens' Relief Association of the Morton Fire Company #1, herein referred to as Morton 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 118 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 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, 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 Morton Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>
Morton Borough	Delaware	\$17,642	\$18,042

BACKGROUND (Continued)

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

Morton Fire Company No. 1

Mr. Glenn Bixby, President
MORTON VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Morton 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, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2007 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 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 Morton Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief 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 Morton Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Morton 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, 2007 to December 31, 2008, found the Morton Volunteer Firefighters' Relief Association did not take appropriate corrective action to address the findings contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Morton Volunteer Firefighters' Relief Association did not, in all significant respects, receive and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the repeat findings listed below and discussed in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Morton Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2008, had a cash balance of \$62,870 and an investment balance with a fair value of \$204,035.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Minutes of Meetings

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Federal Tax Identification Number

Furthermore, we also noted another matter that has been included in the following observation and detailed in the Observation section of this report.

Observation – Diversification of Investments

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

December 4, 2009

JACK WAGNER
Auditor General

MORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Morton Volunteer Firefighters' Relief Association has not complied with the following prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain Minutes of Meetings

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Federal Tax Identification Number

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

MORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Relief Association Bylaws

Condition: As cited in our prior five audit reports, the existing bylaws of the Morton Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not address the requirements for: at least two officers' signatures (one of whom must be the disbursing officer) on all formal contracts and negotiable instruments; bond coverage in an amount at least as great as the maximum cash balance in current findings; nomination and election procedures for officers; and procedures for the approval and payment of expenditures.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3, 4, 5, and 6) states, that the relief association's bylaws shall:

- (3) Require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.
- (4) Require that the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the 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 the bond shall be a proper charge against funds of the association.
- (5) State the procedure to be followed in nominating and in electing officers, trustees, directors, and members of the executive committee, according to the provisions, which have been made for establishment of those positions.
- (6) Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.

Cause: While notified of this condition during our five prior audits, relief association officials still failed to amend the relief association bylaws to meet the bylaw provisions required by Act 118.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

MORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118. Specifically, the bylaws should be updated to include requirements for: the signatures of at least two officers, one of whom should be the disbursing officer, to bind the relief association by contract or to issue checks; bond coverage to be as great as the maximum cash balance at any time during the fiscal year; procedures to be followed when nominating and electing officers; procedures to be followed for the approval and payment of expenditures; and procedures governing the purchase and sale of investments. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management stated "no comment" when the finding was presented at the audit exit conference.

Auditor's Conclusion: As a result of the Morton Volunteer Firefighters' Relief Association's continued failure to maintain minutes of meetings, we have no evidence that state aid and accumulated relief funds were expended in compliance with the relief association's bylaws and administrative procedures. If, during our next audit of the Morton Volunteer Firefighters' Relief Association, it is determined that the relief association failed to take appropriate correct action to address this significant deficiency, then we will pursue a withholding of state aid.

MORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain Minutes of Meetings

Condition: As cited in our prior two audit reports, the relief association, again, did not maintain minutes of meetings as required by Act 118. The minutes provided to auditors were the fire company minutes, with relief association financial reports attached.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

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

Cause: Even though the relief association was cited for this condition during our prior two audits, the relief association officials, again, failed to maintain minutes of meetings as required by Act 118.

Effect: Without detailed minutes of meetings, verification that relief association business was presented before the membership for approval does not exist.

Recommendation: We again recommend relief association officials maintain a permanent record of all relief association meetings as required by Act 118. 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 stated "no comment" when the finding was presented at the audit exit conference.

Auditor's Conclusion: As a result of the Morton Volunteer Firefighters' Relief Association's continued failure to maintain minutes of meetings, we have no evidence that state aid and accumulated relief funds were expended in compliance with the relief association's bylaws and administrative procedures. If, during our next audit of the Morton Volunteer Firefighters' Relief Association, it is determined that the relief association failed to take appropriate correct action to address this significant deficiency, then we will pursue a withholding of state aid.

MORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Federal Tax Identification Number

Condition: As cited in our prior audit report, the volunteer firefighters' relief association, again, failed to comply with the Tax Equity and Fiscal Responsibility Act by not maintaining a federal tax identification number. The relief association is currently using an inactive federal tax identification number.

Criteria: All businesses, both profit and nonprofit, are required to obtain a federal tax identification number and provide this number to any financial institution where funds are earning interest. If their tax identification number is not provided, the financial institution is required to withhold 31 percent of interest earned and transmit these funds to the Internal Revenue Service, representing federal income taxes.

Cause: The relief association was aware of the necessity to obtain its own federal tax identification number. However, with tentative plans to merge with another relief organization, the relief association had hoped that a new federal tax identification number would be obtained under the newly organized relief association. The affiliated fire service organizations merged in 2010; however, the relief associations have not yet merged.

Effect: Failure to comply with the Tax Equity and Fiscal Responsibility Act could cause the relief association to be penalized by the Internal Revenue Service, resulting in the loss of funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We recommend the relief association immediately reactivate its federal tax identification number through the Internal Revenue Service, and furnish this number to its financial institutions. The relief association should also consider applying to the Internal Revenue Service for tax-exempt status as a nonprofit corporation under Internal Revenue Code 501(c). For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management stated "no comment" when the finding was presented at the audit exit conference.

MORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act¹, 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..."².

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 \$130,973 (fair value) or 49% 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.

¹ 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.

² 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

MORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2008

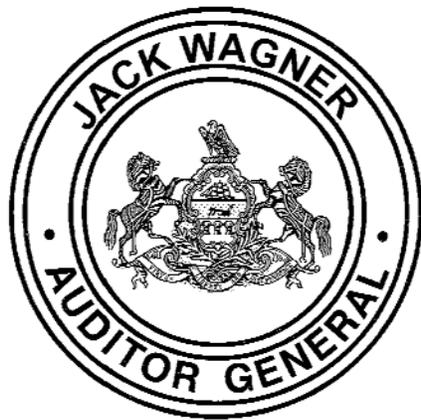
Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 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.

Furthermore, 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	\$ 26,600
Tokens of sympathy and goodwill	597
Total Benefit Services	\$ 27,197
Fire Services:	
Equipment purchased	\$ 8,488
Equipment maintenance	7,844
Training expenses	1,931
Fire prevention materials	2,143
Total Fire Services	\$ 20,406
Administrative Services:	
Miscellaneous administrative expenses	\$ 249
Total Administrative Services	\$ 249



MORTON VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Morton Volunteer Firefighters' Relief Association Governing Body:

Mr. Glenn Bixby, President

Mr. Kenneth Holstein, Vice President

Ms. Kathryn Stein, Secretary

Ms. Maureen Bixby, Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Martha Preston, Secretary
Morton 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.