



NEW CUMBERLAND VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

CUMBERLAND 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 New Cumberland 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 New Cumberland Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>
New Cumberland Borough	Cumberland	\$47,835	\$48,886

BACKGROUND (Continued)

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

New Cumberland Fire Department

Mr. Edward J. Erlsten, President
NEW CUMBERLAND VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Cumberland County

We have conducted a compliance audit of the New Cumberland 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 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 New Cumberland 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 New Cumberland 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 New Cumberland 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 New Cumberland Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$109,172 and an investment balance with a fair value of \$205,637.

Finding No. 1 – Failure to Document Ownership Interest in Jointly Purchased Radios

Finding No. 2 – Failure to Deposit Reimbursement Checks

Finding No. 3 – Failure to Define Discretionary Benefit

Finding No. 4 – Inadequate Record-Keeping and Internal Controls

Finding No. 5 – Inadequate Minutes of Meetings

Finding No. 6 – Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 7 – Related Party Situation

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

December 30, 2008

JACK WAGNER
Auditor General

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure to Maintain Officer's Bond Coverage

By obtaining officer's bond coverage, effective June 9, 2006, in an amount greater than the balance of cash assets. In addition, the relief association had sufficient bond coverage in place as of the date of this report.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure to Document Ownership Interest in Jointly Purchased Radios

Condition: On July 28, 2005, the relief association expended \$25,087 for the purpose of jointly purchasing radio equipment with Cumberland County and New Cumberland Borough. However, the relief association neglected to document its proportional ownership interest in this jointly purchased equipment. Specifically, the relief association did not enter into an agreement with the county and the borough establishing its ownership rights to the radio equipment. The relief association also failed to record the radio equipment on its equipment roster.

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.

Prudent business practice dictates that the relief association should document its ownership interest in the jointly purchased radios by executing a formal written agreement that enumerates the relief association's ownership rights to the equipment. The relief association should also record all equipment purchased on the relief association's equipment roster to properly account for its fixed assets.

Cause: Relief association officials were informed of the necessity to document the relief association's ownership interest in the radio equipment during the prior audit, on June 12, 2006, but have neglected to execute the formal written agreement.

Effect: Failure to document ownership interest in jointly purchased equipment places the relief association's ownership interest in the equipment at greater risk.

Recommendation: We recommend the relief association execute a formal written agreement documenting the relief association's proportional ownership interest in the jointly purchased radios. If such action is not taken, we recommend that the relief association be reimbursed \$25,087. 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.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Deposit Reimbursement Checks

Condition: The relief association did not deposit the following reimbursement checks received during the current audit period:

<u>Date of Check</u>	<u>Vendor Description</u>	<u>Check Amount</u>
02/28/07	Training provider	\$ 75
05/24/07	Training provider	60
06/22/07	Equipment maintenance vendor	15
	Total	<u>\$ 150</u>

We discovered these three uncashed checks in our review of the relief association's records.

In addition, we were informed by an equipment vendor that a check in the amount of \$262, made payable to the relief association in 2006, had not been cashed as of the date of this report. The check represented a reimbursement to the relief association for an overpayment on equipment which was identified by the equipment vendor.

Criteria: Prudent business practice dictates that the relief association should closely monitor reimbursements to ensure all reimbursements are received and timely deposited into a relief association account.

Cause: The relief association failed to establish internal control procedures to ensure that all reimbursement checks are timely deposited into a relief association account.

Effect: The failure to deposit all relief association checks in a timely manner increases the risk that funds could be lost or misappropriated. As a result of the reimbursement not being deposited into a relief association account, the relief association was unable to use the funds to purchase equipment, for general operating expenditures, or for investment purposes.

However, subsequent to the audit period, on December 29, 2008, the relief association deposited the \$262 reimbursement into a relief association account.

Recommendation: We recommend the relief association immediately deposit the three reimbursement checks in amounts totaling \$150. We also recommend the relief association establish accounting and internal control procedures to ensure that all reimbursement checks are 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.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management's Response: Relief association management agreed with the finding as presented and indicated they will take action to comply with the recommendation.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Define Discretionary Benefit

Condition: The relief association did not formally define and approve a discretionary benefit that was being paid on behalf of a member. During the current audit period, the relief association paid \$2,500 in form of a death benefit to the estate of a relief association member. Although this expenditure is authorized by Act 84, the types, amounts, and criteria to be met before receiving the benefit was not described in a formal policy approved by the relief association membership.

Criteria: Act 84 at 53 P.S. § 8503 (3) 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 (emphasis added)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, or any other 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 death benefit and related criteria for receiving the benefit.

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.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Record-Keeping and Internal Controls

Condition: The relief association failed to establish adequate internal controls over its financial record-keeping. We determined that the relief association's financial record-keeping system did not provide effective control over cash receipts, disbursements, and monetary assets, and does not meet the minimum requirements of maintaining financial records established by this department. The following record-keeping deficiencies and material internal control weaknesses existed during the audit period:

- Detailed minutes of meetings were not maintained (see Finding No. 5).
- Financial-related activities were not presented, discussed, and approved at relief association meetings (see Finding No. 5).
- Complete and accurate journals were not maintained to record the receipts and disbursements of the relief association. In many cases, the check number and check amount recorded on the journal did not correspond with the actual check number and check amount that cleared the bank. In addition, the few deposits made during the audit period were either not recorded or not accurately recorded in the relief association's journal.
- Financial statements prepared for 2006 were inaccurate and no financial statements were prepared for 2007.
- We found three uncashed checks made payable to the relief association among the various documents supplied for the audit. These three checks were payable to the relief association during the audit period but remained uncashed as of the date of this report (see Finding No. 2).
- Documentation was not maintained to support the identity of a \$2,631 deposit made into a relief association account.
- Relief association officials were unaware of a \$262 overpayment made by the relief association. The \$262 overpayment was reimbursed to the relief association after the overpayment was identified by the equipment vendor (see Finding No. 2).
- Annual physical inventories of equipment owned were not performed (see Finding No. 6).
- Investment transactions were not recorded in a journal or in the minutes of the relief association meetings. In addition, investment statements were not provided at the time of the audit

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.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

In addition, Article IV, Section 5 of the relief association's bylaws states, in part:

- The Secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note authorization by the membership of all association financial transactions and all other pertinent business discussed at meetings. The Treasurer shall keep account of all money belonging to the relief association and he shall not expend monies or enter into investment transactions without authorization by the membership.
- The Treasurer shall keep a journal and ledger which details all financial transactions of the Association and shall maintain all documentation supporting the receipts and disbursements made by the Association.
- The Treasurer shall, at least on an annual basis, present to the membership a written financial statement summarizing the financial transactions of the Association.

Also, prudent business practice dictates that:

- The relief association should ensure all monies received by the relief association are timely deposited into a relief association account.
- Sufficient documentation must be maintained and available at the time of the audit to support all receipts and expenditures.
- The relief association should closely monitor reimbursements due to ensure they are received and deposited in a timely manner
- Annual inventories of equipment owned should be performed to account for relief association's fixed assets.

Additionally, sound accounting procedures for investment purchases and sales should include the recording of the dates of purchase and sale of a security, rate of interest and the date interest income is received.

Cause: Relief association officials failed to establish adequate internal controls to ensure the propriety of expenditures and proper documentation of relief association transactions. The relief association officials were unaware of the relief association's ineffective internal control system. While relief association officials were aware of their various record-keeping responsibilities, they failed to establish effective procedures to ensure adequate records were maintained.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Effect: The failure to establish adequate internal controls prevented the relief association from adequately safeguarding its assets and prevented the verification as to whether relief association business was presented before the membership for discussion and approval. The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations. Furthermore, the lack of effective internal controls and lack of financial records places the relief association funds at greater risk for misappropriation of funds.

Recommendation: We recommend relief association officials adopt internal control procedures, and establish and maintain a financial record-keeping system that meets the minimum record-keeping requirements of this department. Such requirements include:

- Maintenance of detailed meeting minutes.
- Presentation, discussion, and approval of financial activities at relief association meetings.
- Maintenance of complete and accurate journals and ledgers.
- Preparation of annual financial statements.
- Timely deposit of all funds received into a relief association account.
- Maintenance of sufficient documentation to support all receipts and expenditures.
- Monitoring of reimbursements due.
- Annual inventories of equipment owned.
- Maintenance of investment records identifying investment income, purchases, and sales.

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 presented at the audit exit conference and indicated they will take action to comply with the recommendation.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Inadequate Minutes of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings as required by Act 84 and the relief association's bylaws. The meeting minutes provided at the time of the audit did not address the financial-related transactions that occurred during the audit period. Specifically, the minutes provided did not document the authorization to expend funds including investments. In addition, due to the inadequate meeting minutes, we could not determine if the quorum requirements were met in order to conduct relief association business.

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.

Article IV, Section 5, of the relief association's bylaws provides, in pertinent part:

The Secretary shall keep a true record of the proceedings of every meeting in the minutes. The minutes shall note authorization by the membership of all association financial transactions and all other pertinent business discussed at meetings.

In addition, Article V, Section 4, of the relief association's bylaws provides, in pertinent part:

Fifteen voting members including the majority of the Board of Directors shall constitute a quorum.

Cause: Relief association officials were unaware that maintaining detailed minutes of meetings was required by Act 84 and the relief association's bylaws.

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

Recommendation: We recommend the relief association maintain detailed minutes of meetings, including all financial-related business conducted by the relief association. We further recommend that the minutes indicate the members in attendance in order to document that the business transacted at the meetings was conducted by a quorum of membership. 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 and indicated they will take action to comply with the recommendation.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While a roster of equipment was provided at the time of the audit, it was incomplete since most of the equipment listed did not contain dates of purchase, names of suppliers, unit costs, location, or serial numbers, where available, to accurately identify the equipment owned. As such, it was impossible to determine if all items purchased during the audit period had been accurately recorded. In addition, there was no indication that an inventory of the equipment was performed to account for the relief association's fixed assets.

Criteria: The relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's fixed assets. A cumulative roster of all relief association equipment should include the following:

- Type of equipment purchased.
- Date of purchase.
- Unit cost.
- Name of supplier.
- Serial number, if applicable.
- Current location of item.
- Final disposition of sold or damaged equipment.
- Notation of the annual inventory.

Cause: Relief association officials failed to establish adequate internal control procedures over fixed assets to include the maintenance of a cumulative equipment roster and the performance of an annual equipment inventory.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual equipment inventory prevents adequate accountability and safeguarding of relief association assets.

Recommendation: We recommend the relief association officials maintain a cumulative roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual inventory of all operable equipment and that the inventory be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

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.

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 7 – Related Party Situation

Condition: Relief association officials failed to disclose a related party situation to the relief association membership. The relief association had a related party situation that existed because the relief association did business with a vendor that was owned by a relief association officer. During the audit period, the relief association expended \$1,833 for services provided by this vendor.

A related party situation occurs when the relief association deals with a business that employs or is owned by a relief association officer or a member of an officer's immediate family. Such a situation may provide a financial benefit to the related party through a commission or a profit from a sale.

Criteria: All related party situations should be disclosed to the membership and recorded in the minutes of relief association meetings. In addition, the individual involved in the related party situation should abstain from all discussion and votes concerning his place of employment.

Cause: Relief association officials were unaware that related party situations should be disclosed to the membership.

Effect: Failure to properly disclose a related party situation may create a potential conflict of interest and result in an officer using his or her position for personal benefit. The existence of an undisclosed related party situation creates an environment in which the transparency needed to evaluate the appropriateness of transactions is missing.

Recommendation: We recommend the relief association officials take the actions necessary to eliminate the appearance of a conflict of interest. Actions should include, but are not limited to, a written notification to the relief association membership of each related party situation and the abstention of the relief association official from discussion and voting rights which involve his capacity as a tax preparer. These actions should be documented in the relief association's minutes. Furthermore, the relief association should closely review all related party transactions to ensure that the cost of the services rendered by the firm is competitive.

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.

NEW CUMBERLAND 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, 2007, the VFRA had \$205,637 (fair value) or 65% 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.

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).

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported in Finding Nos. 1 and 2 may lead to a total withholding of state aid in the future unless the findings are corrected. However, such action will not be considered if sufficient documentation is provided immediately to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 406 Finance Building, Harrisburg, PA 17120.

NEW CUMBERLAND 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	\$ 19,953
Death benefits	2,500
Tokens of sympathy and goodwill	651
Total Benefit Services	\$ 23,104
Fire Services:	
Equipment purchased	\$ 54,720
Equipment maintenance	17,281
Training expenses	6,381
Total Fire Services	\$ 78,382
Administrative Services:	
Miscellaneous administrative expenses	\$ 1,941
Total Administrative Services	\$ 1,941
Total Investments Purchased	\$ 235,000

NEW CUMBERLAND VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

New Cumberland Volunteer Firefighters' Relief Association Officers:

Mr. Edward J. Erlsten, President

Ms. Cynthia A. Anderson, Secretary

Mr. Dean R. Jury, Treasurer

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

Mr. Stephen C. Sultzaberger, Secretary
New Cumberland 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.