



MARTINSBURG VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

MARTINSBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

BLAIR COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006 TO DECEMBER 31, 2007



CONTENTS

Background.....	1
Letter From the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Inappropriate Disbursement to the Fire Company	6
Finding No. 2 – Untimely Deposit of State Aid	8
Observation.....	9
Accompanying Expenditure Information	10
Report Distribution List.....	11



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 Martinsburg 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 Martinsburg Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>
Woodbury Township	Bedford	\$ 2,506	\$ 2,519*
Huston Township	Blair	\$ 8,901	\$ 9,102*
Martinsburg Borough	Blair	\$11,474	\$11,895
North Woodbury Township	Blair	\$15,867	\$16,063
Taylor Township	Blair	\$ 3,473	\$ 3,573

* As detailed in Finding No. 3, the 2007 state aid allocations from Woodbury Township and Huston Township were not deposited until January 7, 2008, which is subsequent to the period under review.

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

Martinsburg Volunteer Fire Company No. 1

Mr. Jeffrey W. Hite, President
MARTINSBURG VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Blair County

We have conducted a compliance audit of the Martinsburg 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. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

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 Martinsburg 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 Martinsburg 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 Martinsburg 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 Martinsburg Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$11,236 and an investment balance with a fair value of \$74,680.

Finding No. 1 – Inappropriate Disbursement to the Fire Company

Finding No. 2 – Untimely Deposit of State Aid

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

July 10, 2008

JACK WAGNER
Auditor General

MARTINSBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Martinsburg Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Insufficient Officer's Bond Coverage

By increasing the officer's bond coverage to an amount greater than the balance of cash assets.

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative roster of all relief association owned equipment.

- Failure to Maintain a Complete and Accurate Membership Roster

By maintaining a comprehensive listing of the relief association membership

MARTINSBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inappropriate Disbursement to the Fire Company

Condition: On June 14, 2007, the relief association inappropriately disbursed \$14,071 to the Martinsburg Volunteer Fire Company No. 1 as reimbursement for 2000, 2002, 2003, and 2005 insurance premiums.

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.

Since the Department of the Auditor General is legislatively prohibited from giving pre-audit advice, an interagency agreement with the Department of Community and Economic Development (DCED) had been established whereby the DCED provided interpretation of Act 84 of 1968, the "Volunteer Firefighters' Relief Association Act." A ruling issued by the Department of Community and Economic Development in regard to time restrictions on insurance reimbursements states, in part:

- Any relief association payment made for insurance premium reimbursement can apply only during the current policy effective date(s).
- Payments may be made for multi-year or single-year policies as long as they fall within the time of the audit.
- Payments for any policies outside of a current effective date are not acceptable.

The above ruling issued by the DCED established a precedent for reimbursements of dated insurance expenditures. Since the financial period under review is January 1, 2006 through December 31, 2007, and the insurance reimbursement is applicable to policies with effective dates prior to that, the expenditure is considered inappropriate.

Cause: Relief association officials were unaware that the aforementioned expenditure was inappropriate. In addition, officials failed to establish adequate internal control procedures to ensure that relief association assets are safeguarded.

MARTINSBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As a result of this inappropriate expenditure, relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 84.

However, subsequent to the period under review, on October 20, 2008, the relief association was reimbursed \$14,071 from the affiliated fire company for the inappropriate disbursement.

Recommendation: We recommend that relief association officials immediately discontinue the practice of reimbursing the fire company for insurance premiums paid on prior policy periods. 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.

MARTINSBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Untimely Deposit of State Aid

Condition: The volunteer firefighters' relief association did not timely deposit the following state aid allocations:

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date of Municipality Check</u>	<u>Deposit Date</u>
2006	Huston Township	\$ 8,901	12/07/06	01/03/07
2006	Taylor Township	3,473	12/06/06	01/03/07
2007	Woodbury Township	2,519	10/17/07	01/07/08
2007	Huston Township	9,102	12/06/07	01/07/08

Criteria: The foreign fire insurance tax allocations were distributed to the municipal treasurers, who forwarded the state aid to the volunteer firefighters' relief association within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). However, upon receipt of the state aid allocations, the relief association should ensure the funds are deposited in a timely manner.

Cause: The relief association failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner.

Effect: As a result of the untimely deposits, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts can lead to a greater risk that funds could be lost or misappropriated.

Recommendation: We recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. 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.

MARTINSBURG 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 \$74,680 (fair value) or 87% 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).

MARTINSBURG 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	\$ 21,257
Relief benefits	576
Total Benefit Services	\$ 21,833
Fire Services:	
Equipment purchased	\$ 138,794
Equipment maintenance	850
Training expenses	304
Total Fire Services	\$ 139,948
Administrative Services:	
Officer compensation	\$ 900
Other administrative expenses	86
Total Administrative Services	\$ 986

MARTINSBURG VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Martinsburg Volunteer Firefighters' Relief Association Officers:

Mr. Jeffrey W. Hite, President

Ms. Peggy Whitfield, Secretary

Mr. David Dilling, Treasurer

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

Ms. Denise L. Ott, Secretary
Woodbury Township

Ms. Dorothy B. Stahl, Secretary
Huston Township

Ms. M. Jane Staily, Secretary
Martinsburg Borough

Ms. Sharon L. Brower, Secretary
North Woodbury Township

Ms. Barbara M. Greenleaf, Secretary
Taylor 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.