



**MILLVILLE COMMUNITY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
MILLVILLE, PENNSYLVANIA**

HEREIN REFERRED TO AS:

MILLVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

COLUMBIA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005 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 Millville 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 Millville Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Greenwood Township	Columbia	\$10,734	\$10,830	\$11,173
Madison Township	Columbia	\$ 5,049	\$ 5,101	\$ 5,235
Millville Borough	Columbia	\$ 5,801	\$ 5,805	\$ 5,796
Mount Pleasant Township	Columbia	\$ 2,370	\$ 2,417	\$ 2,494 *
Pine Township	Columbia	\$ 3,286	\$ 3,338	\$ 3,426

* The 2007 state aid allocation from Mount Pleasant Township was not deposited into a relief association account until March 20, 2008.

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

Millville Community Fire Company

Mr. Ron Girton, President
MILLVILLE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Columbia County

We have conducted a compliance audit of the Millville 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, 2005 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 objective of the audit was 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Millville 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 objective. We also tested transactions, confirmed the Millville Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2007, with the custodian of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objective.

The results of our audit for the period January 1, 2005 to December 31, 2007, found, in all significant respects, the Millville 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 Millville Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$77,719 and an investment balance with a fair value of \$26,836.

Finding No. 1 – Untimely Deposit of State Aid

Finding No. 2 – Duplicate Payment

Finding No. 3 – Failure to Maintain a Complete and Accurate Membership Roster

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

May 14, 2008

JACK WAGNER
Auditor General

MILLVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – 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 Municipality Distributed Aid</u>	<u>Deposit Date</u>
2005	Madison Township	\$ 5,049	10/10/05	01/09/06
2005	Pine Township	3,286	11/16/05	01/05/06
2007	Mount Pleasant Township	2,494	03/11/08	03/20/08

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). 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. The relief association treasurer stated the relief association did not receive the state aid checks from Pine Township and Madison Township until later in the year causing the untimely deposit of state aid. The Mount Pleasant Township state aid check was lost and another check was distributed to the municipality in January 2008.

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.

MILLVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Duplicate Payment

Condition: On January 5, 2005, the relief association expended \$566 for bunker boots. On February 2, 2005, the relief association erroneously made a duplicate payment for the same bunker boots. As such, the second payment is considered an unauthorized disbursement because no goods or services were received for the payment.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices.

Cause: The volunteer firefighters' relief association failed to establish internal control procedures which would require that all invoices or other billing documents be canceled or otherwise effectively marked to prevent duplicate payments.

Effect: As a result of this erroneous payment, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend the relief association be reimbursed \$566 for the erroneous duplicate payment. The relief association should consider contacting the vendor to recover the duplicate payment. In addition, the relief association should establish accounting and internal control procedures to monitor future relief association expenditures. 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.

MILLVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Maintain a Complete and Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members. While the relief association did provide a roster, the roster did not contain complete addresses, if an address was provided. The roster also did not contain dates of birth, dates of membership, or dates of resignation or death.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Name of each member.
- Member's mailing address.
- Date of birth.
- Date of membership.
- Membership classification.

In addition, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Relief association officials were unaware of the specifics of a comprehensive roster of relief association members.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We recommend the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.

MILLVILLE 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 \$26,836 (fair value) or 26% 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).

MILLVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2005 TO DECEMBER 31, 2007

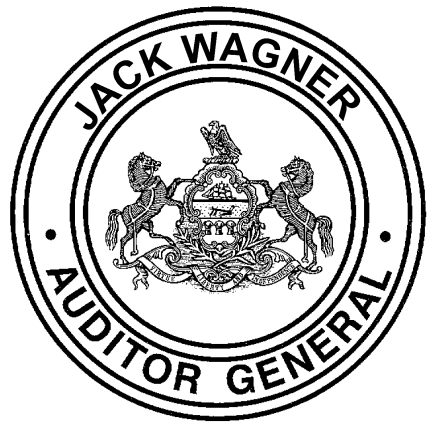
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 6,389
Death benefits	2,000
Relief benefits	180
Tokens of sympathy and goodwill	135
Total Benefit Services	<u>\$ 8,704</u>
Fire Services:	
Equipment purchased	\$ 43,069
Equipment maintenance	8,271
Training expenses	13,126
Total Fire Services	<u>\$ 64,466</u>
Administrative Services:	
Miscellaneous administrative expenses	\$ 2,024
Total Administrative Services	<u>\$ 2,024</u>



MILLVILLE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Millville Volunteer Firefighters' Relief Association Officers:

Mr. Ron Girton, President

Ms. Cheryl A. Eyer, Secretary

Mr. Ronnie E. Eyer, Treasurer

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

Ms. Doris Spiece, Secretary
Greenwood Township

Ms. Della L. Frey, Secretary
Madison Township

Ms. Vicki Moyer, Secretary
Millville Borough

Ms. Coralee Kindt, Secretary
Mount Pleasant Township

Ms. Linda Gordner, Secretary
Pine 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.