



MIDDLETOWN TOWNSHIP VOLUNTEER FIREMAN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

MIDDLETOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

DELAWARE 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 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster	6
Finding No. 2 – Failure to Timely Deposit State Aid.....	8
Finding No. 3 – Failure to Maintain a Complete and Accurate Membership Roster	9
Observation.....	10
Accompanying Expenditure Information	11
Report Distribution List	13



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

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>
Middletown Township	Delaware	\$141,520	\$143,919
Rose Valley Borough	Delaware	\$ 1,037*	\$ 1,067

* The 2006 state aid from Rose Valley Borough was not deposited by the Middletown Township Volunteer Firefighters' Relief Association until September 19, 2008.

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

- Lenni Heights Fire Company
- Lima Fire Company
- Middletown Fire Company

Mr. William B. Eisenhart, President
MIDDLETOWN TOWNSHIP VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Delaware County

We have conducted a compliance audit of the Middletown Township Volunteer Firefighters' Relief Association pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2006 to December 31, 2007.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Middletown Township 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 Middletown Township 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 Middletown Township 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 Middletown Township Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$161,998 and an investment balance with a fair value of \$496,456.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Failure to Timely Deposit State Aid

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 – Diversifications of Investments

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

June 3, 2008

JACK WAGNER
Auditor General

MIDDLETOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Inadequate Minutes of Meetings

By maintaining detailed minutes of all association meetings held during the audit period.

- Inadequate Investment Records

By sufficiently documenting all investment transactions made during the audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Middletown Township Volunteer Firefighters' Relief Association has not complied with a prior audit finding. This issue is further discussed in the following findings noted in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

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

MIDDLETOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the prior two audit reports, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. During the current audit, the relief association provided two separate rosters of equipment owned by the relief association and located at the three affiliated fire companies. These separate rosters were compiled by each respective affiliated fire company rather than the relief association. However, the rosters provided by the affiliated fire companies lacked some of the information required by this department to accurately account for the relief association's equipment purchases. The information missing included serial numbers, dates of purchase, unit costs of the equipment, and final disposition. While it is not necessary for each of the affiliated fire companies and the relief association to maintain separate records, it is the relief association's responsibility to have sufficient records to be able to determine that all equipment purchased has been recorded and accounted for. In addition, there was no indication that an annual 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.

In addition, the relief association's cumulative equipment roster should be maintained by the relief association with all equipment purchases being recorded by the relief association at the point of purchase rather than relying on each independent affiliated fire company to maintain accurate records of equipment purchased. This would also ensure consistency of information included on the equipment roster.

Cause: While notified of this condition in the prior two audit reports, relief association officials neglected 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.

MIDDLETOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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. Since the relief association had relied upon each affiliated fire company to maintain equipment rosters, the relief association did not have sufficient records to adequately account for all relief association equipment purchases.

Recommendation: We again 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.

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.

MIDDLETOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Timely Deposit State Aid

Condition: During the current audit, we detected that the relief association did not timely deposit its 2006 state aid allocation that was distributed by Rose Valley Borough in the amount of \$1,037. After bringing this matter to the relief association's attention during the current audit, the relief association requested the state aid from the affiliated fire service organization and the funds representing the 2006 state aid from Rose Valley Borough was subsequently deposited into the relief association's account on September 19, 2008.

Criteria: The 2006 foreign fire insurance tax allocation was distributed to the Rose Valley Borough municipal treasurer on September 22, 2006, who then issued a check representing the state aid to the volunteer firefighters' relief association treasurer on October 11, 2006, which is within 60 days of receipt as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). The relief association should have sufficient internal controls in place to ensure the timely receipt and deposit of state aid. Such internal control procedures should include written communication when funds are not received in a timely manner.

Cause: The relief association failed to establish internal control procedures to ensure that all state aid is received and deposited into a relief association account in a timely manner. The relief association management informed us that the 2006 state aid from Rose Valley Borough was not timely deposited into a relief association account because it had been erroneously deposited into the affiliated fire company's account. The 706-B Receipt Form submitted by the Rose Valley Borough indicated the check was provided to an individual who was an officer of the affiliated fire company and not an officer of the relief association, which may explain why the funds were erroneously deposited into a fire company account.

Effect: As a result of the state aid not being timely received and deposited into a relief association account, the relief association was unable to use the funds for general operating expenses or for investment purposes. In addition, the failure to deposit receipts in a timely manner can lead to a greater risk that funds could be lost or misappropriated.

Recommendation: We recommend the relief association establish accounting and internal control procedures to ensure that all state aid is received in a timely manner and deposited into a relief association account. A copy of this report is being furnished to the municipal officials of Rose Valley Borough so they are aware of the circumstances regarding this untimely deposit. 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.

MIDDLETOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

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

Condition: The relief association did not maintain a complete and accurate membership roster. The relief association did provide a roster of members at the time of the audit but, in many instances, the roster did not indicate the date of birth, date of membership, or membership status.

Criteria: Relief association officials should maintain a complete and accurate listing 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 that they should maintain 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.

MIDDLETOWN TOWNSHIP 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 \$496,456 (fair value) or 75% 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).

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

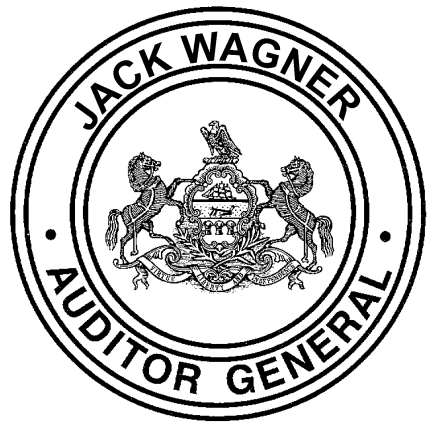
Act 84 at 53 P.S. § 8502(1) states, in part, that:

A volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds. All expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 38,566
Death benefits	20,000
Total Benefit Services	\$ 58,566
Fire Services:	
Equipment purchased	\$ 152,816
Equipment maintenance	4,260
Training expenses	19,213
Total Fire Services	\$ 176,289
Administrative Services:	
Miscellaneous administrative expenses	\$ 3,685
Total Administrative Services	\$ 3,685
Other Expenditures:	
Brokerage fees	\$ 10,601
Total Other Expenditures	\$ 10,601



MIDDLETOWN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Middletown Township Volunteer Firefighters' Relief Association Officers:

Mr. William B. Eisenhart, President

Mr. John A. Toal, Secretary

Mr. Gregory L. Reitze, Treasurer

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

Mr. W. Bruce Clark, Secretary
Middletown Township

Ms. Paula W. Healy, Secretary
Rose Valley 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.