



MAHAFFEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

CLEARFIELD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010 TO DECEMBER 31, 2011

RELEASED APRIL 2014

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Bryan Sheeder, President
MAHAFFEY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Clearfield County

We have conducted a compliance audit of the Mahaffey Volunteer Firefighters' Relief Association pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2010 to December 31, 2011.

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 Mahaffey Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Mahaffey Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Mahaffey Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives.

The results of our audit, for the period January 1, 2010 to December 31, 2011, found the Mahaffey Volunteer Firefighters' Relief Association took appropriate corrective action to address two of the four findings contained in our prior audit report. However, the Mahaffey Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the two remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Mahaffey Volunteer Firefighters' Relief Association, in all significant respects, received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the findings listed below and discussed later in this report. The results of our tests also indicated the Mahaffey Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$28,412 and no investments.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Untimely Receipt and Deposit of State Aid

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Insufficient Surety (Fidelity) Bond Coverage

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

April 11, 2013

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

Background.....	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Untimely Receipt and Deposit of State Aid.....	4
Finding No. 2 – Noncompliance With Prior Audit Recommendation - Insufficient Surety (Fidelity) Bond Coverage	6
Accompanying Expenditure Information	7
Report Distribution List	8

BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (commonly referred to as Act 205), are properly expended.

The Mahaffey Volunteer Firemen's Relief Association, herein referred to as Mahaffey Volunteer Firefighters' Relief Association, is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations, which is or are recognized as providing the service to the municipality.

BACKGROUND (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>
Bell Township	Clearfield	\$2,566	\$3,719
Burnside Township	Clearfield	\$1,532	\$2,222
Chest Township	Clearfield	\$1,044*	\$1,537
Ferguson Township	Clearfield	\$1,500	\$2,462
Greenwood Township	Clearfield	\$2,478	\$3,350
Mahaffey Borough	Clearfield	\$1,740	\$2,473
New Washington Borough	Clearfield	**	\$ 540*
Newburg Borough	Clearfield	\$ 433	\$ 681

* A portion of the 2010 state aid allocation from Chest Township was deposited into the affiliated fire department account in the amount of \$633 and later reimbursed to the relief association on April 27, 2013. In addition, the 2011 state aid allocation received from New Washington Borough amounting to \$540 was also deposited into an affiliated fire department's account and was subsequently reimbursed to the relief association on April 27, 2013 as further discussed in Finding No. 1 contained in this report.

**In 2010, the relief association did not receive state aid allocation from New Washington Borough.

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

Community Volunteer Fire Department

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Unauthorized Expenditure

By obtaining reimbursement on January 25, 2011, in the amount of \$188, from the Community Volunteer Fire Department for an unauthorized expenditure made during the prior audit period. In addition, we did not detect any additional unauthorized expenditures during the current audit period.

- Undocumented Expenditures

By providing adequate supporting documentation, in the amount of \$186, and receiving reimbursement from the Community Volunteer Fire Department, in the amount of \$357, which totals the amount of \$543 for the undocumented expenditures made during the prior audit period. In addition we did not detect any additional undocumented expenditures during the current audit period.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

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

- Noncompliance With Prior Audit Recommendation –
Untimely Receipt and Deposit of State Aid

Although the relief association eventually received the 2009 state aid allocation from New Washington Borough on January 11, 2010, in the amount of \$372 and appropriately deposited the amount into the relief association's bank account, a similar condition occurred during the current audit period as disclosed in Finding No. 1 contained in this report.

- Noncompliance With Prior Audit Recommendation –
Insufficient Surety (Fidelity) Bond Coverage

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

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Untimely Receipt and Deposit of State Aid

Condition: As disclosed in the Status of Prior Findings section of this report, although the relief association eventually received and deposited the 2009 state aid allocation from New Washington Borough on January 11, 2010, into a relief association account, a similar condition occurred during the current audit period. The relief association failed to deposit the 2011 state aid received from New Washington Borough in the amount of \$540 and the 2010 state aid allocation received from Chest Township, in the amount of \$1,044, into a relief association's owned account in accordance with Act 118.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that, upon receipt of its state aid allocation, the relief association should ensure the funds are deposited in a timely manner.

Cause: The foreign fire insurance tax allocation for 2010, in the amount of \$1,044, was distributed to the Chest Township municipal treasurer on September 10, 2010, who failed to timely forward this state aid allocation to the relief association. On January 26, 2011 a check in the amount of \$411, representing a portion of the state aid, was received from Chest Township and deposited into the relief association's account. However, not only was this deposit not timely, the amount was incorrect, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). The relief association failed to establish adequate internal control procedures to ensure that all state aid received was deposited properly into a relief association account. Additionally, on September 26, 2011, the foreign fire insurance tax allocation was distributed to New Washington Borough in the amount of \$540. Even though the 706B form completed by the borough secretary reported two checks numbered 1226 and 1229, in the amounts of \$249 and \$355, respectively, neither amount could be tracked to the relief association's account and the amounts did not agree to the amount distributed to the borough.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 1 – (Continued)

Effect: As a result of the state aid not being deposited, funds were not available to pay 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.

However, as a result of our audit and subsequent to the audit period, on April 27, 2013, the affiliated fire department reimbursed the relief association \$1,173 that was erroneously deposited into the affiliated fire department account.

Recommendation: We again recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all future 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, took the corrective action as noted above and indicated they will take the necessary action to ensure continued compliance with the recommendation in subsequent periods.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Noncompliance With Prior Audit recommendation - Insufficient Surety (Fidelity) Bond Coverage

Condition: As disclosed in the prior audit report, the relief association again did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer. The relief association's Surety (Fidelity) bond coverage amount was \$25,000; however, as of December 31, 2012, the relief association's cash assets totaled \$28,412.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against the funds of the association.

Cause: Even though notified of this condition in the prior audit period, relief association officials again, neglected to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

Effect: As a result of the authorized disbursing officer of the relief association being insufficiently bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We again, recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. Relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2010 TO DECEMBER 31, 2011

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

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 1,142
Fire Services:	
Equipment purchased	\$ 24,942
Equipment maintenance	3,263
Training expenses	1,813
Fire prevention materials	972
Total Fire Services	\$ 30,990
Administrative Services:	
Miscellaneous administrative expenses	\$ 35

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Mahaffey Volunteer Firefighters' Relief Association Governing Body:

Mr. Bryan Sheeder	President
Mr. Brian Wright	Vice President
Ms. Theresa D. Dilts	Secretary
Mr. Joshua K. Bush	Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report.

Ms. Barbara H. Kauffman, Secretary Bell Township	Ms. Dianna L. Rorabaugh, Secretary Burnside Township
Ms. Tanya Kunsman, Secretary Chest Township	Ms. Betty Lou Stump, Secretary Ferguson Township
Mr. Morton Johns, Secretary Greenwood Township	Ms. Sally M. Long, Secretary Mahaffey Borough
Ms. Tonya Snyder, Secretary New Washington Borough	Ms. Jennifer M. Peterson Newburg Borough

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.