



MAHAFFEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

CLEARFIELD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2004 TO DECEMBER 31, 2006



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

BACKGROUND (Continued)

<u>Municipality</u>	<u>County</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Bell Township	Clearfield	\$2,136	\$2,450	\$2,442
Burnside Township	Clearfield	\$1,298	\$1,445	\$1,477
Chest Township	Clearfield	\$ 849	\$ 962	\$ 989
Ferguson Township	Clearfield	\$1,074	\$1,185	\$1,700
Greenwood Township	Clearfield	\$2,178	\$2,400	\$2,394
Mahaffey Borough	Clearfield	\$1,482	\$1,637	\$1,654
New Washington Borough	Clearfield	\$ 365	\$ 411	\$ 416
Newburg Borough	Clearfield	\$ 326	\$ 374	\$ 375

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

Mr. Daniel L. Wright, 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, 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, 2004 to December 31, 2006. 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.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to volunteer firefighters' relief associations and to audit volunteer firefighters' relief associations having received such aid. An administrative unit of the Department's Comptroller's Office that is not involved in the audit process calculates state aid and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

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 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 Mahaffey Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2006, with the custodian of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objective.

The results of our audit found that for the period January 1, 2004 to December 31, 2006, the Mahaffey Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2006, had a cash balance of \$13,051 and an investment balance with a fair value of \$7,869. Additionally, the results of our tests indicated that, in all significant respects, the Mahaffey Volunteer Firefighters' Relief Association received and expended state aid and accumulated relief association funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report:

Finding No. 1 – Unauthorized Expenditures

Finding No. 2 – Undocumented Expenditures

Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds

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.

June 4, 2007

JACK WAGNER
Auditor General

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items, which are not authorized by Act 84:

Date	Check No.	Description	Amount
03/07/06	772	Fire company postage	\$ 40
03/28/06	777	Fire company supplies	141
06/14/06	781	Floral arrangement for non-member	45
09/18/06	790	Fire company postage	49
11/30/06	797	Fire company postage	309
Total			<u>\$ 584</u>

Criteria: Act 84 at 53 P.S. § 8506(e)(1) and (5) state:

The funds of any volunteer firefighters' relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of its affairs including legal fees and including but not by way of limitation the rental or purchase of offices, the payment of reasonable compensation of any needed employees, and the purchase of office equipment and supplies.

- (5) To pay the costs of procuring and forwarding tokens of sympathy and goodwill to a volunteer firefighter who may be ill or hospitalized as a result of participation in the fire service or who may die or who may be seriously ill for any reason.

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." The DCED has determined that the relief association may expend funds on behalf of its members and for normal and reasonable running expenses. Here, however, the above expenditures are for a non-member and the fire company. Consequently, the expenditures are not considered permissible under Act 84.

Cause: Relief association officials were unaware that the aforementioned expenditures were not authorized by Act 84.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As a result of these improper expenditures, 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 May 25, 2007, the relief association was reimbursed \$584 for the unauthorized expenditures.

Recommendation: We recommend the relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) to aid them in determining the propriety of future 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.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

Date	Check No.	Amount
04/12/04	694	\$ 62
04/27/05	737	176
11/22/05	757	132
03/09/06	774	105
10/04/06	792	124
Total		\$ 599

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.

Without adequate supporting documentation, such as invoices and/or training certificates, where applicable, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require that adequate supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure adequate supporting documentation is maintained for all expenditures.

Effect: Lack of adequate supporting documentation, such as invoices and/or training certificates, where applicable, made it impossible to determine the expenditures were made in accordance with Act 84 at 53 P.S. § 8506(e).

However, subsequent to the period under review, on May 25, 2007, the relief association was reimbursed \$599 for the undocumented expenditures.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the relief association officials maintain adequate supporting documentation for all future 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.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds

Condition: The signature of only one relief association officer was used to disburse relief association funds from the checking account, although the signatures of at least two relief association officers are required. Specifically, we detected three checks drawn on the relief association's checking account during the current financial period that only contained one signature.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required in order to bind the association by formal contract or to issue any negotiable instrument.

Cause: Relief association officials were unaware of the Act 84 provision, which requires the signatures of at least two officers for the disbursement of funds.

Effect: As a result of the relief association not obtaining two signatures for all disbursements, assets were placed at greater risk of misappropriation.

Recommendation: We recommend the relief association officials adopt procedures which would require the signatures of at least two officers on all relief association negotiable instruments, as required by 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.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2006

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	\$ 2,087
Tokens of sympathy and goodwill	355
Total Benefit Services	\$ 2,442
Fire Services:	
Equipment purchased	\$ 7,557
Equipment maintenance	9,543
Training expenses	2,109
Fire prevention materials	201
Total Fire Services	\$ 19,410
Administrative Services:	
Miscellaneous administrative expenses	\$ 933
Total Administrative Services	\$ 933
Total Investments Purchased	\$ 7,869
Other Expenditures:	
Undocumented expenditures	\$ 599
Total Other Expenditures	\$ 599

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Mahaffey Volunteer Firefighters' Relief Association Officers:

Mr. Daniel L. Wright, President

Mr. Michael T. Bell, Secretary

Ms. Patricia A. Marshall, Treasurer

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

Ms. Barbara H. Kauffman, Secretary
Bell Township

Ms. Debora S. Blake, Secretary
Burnside Township

Ms. Tanya Kunsman, Secretary
Chest Township

Ms. Peggy J. McCully, Secretary
Ferguson Township

Mr. Morton Johns, Secretary
Greenwood Township

Ms. Sally M. Long, Secretary
Mahaffey Borough

Ms. Barbara Rorabaugh, Secretary
New Washington Borough

Ms. Jennifer M. Peterson, Secretary
Newburg 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.