



MARIETTA SPECIAL FIRE POLICE RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

**MARIETTA SPECIAL FIRE POLICE VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION**

LANCASTER COUNTY

AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2003 TO DECEMBER 31, 2005



CONTENTS

Background.....	1
Independent Auditor's Report.....	3
Statement of Monetary Assets Arising From Cash Transactions.....	5
Statement of Cash Receipts, Disbursements, and Changes in Cash.....	6
Notes to Financial Statements.....	7
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.....	9
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Obtain a Federal Tax Identification Number	12
Finding No. 2 – Inappropriate Presigning of Blank Checks.....	13
Finding No. 3 – Insufficient Officer's Bond Coverage.....	14
Finding No. 4 – Inadequate Minutes of Meetings	15
Comments	16
Report Distribution List.....	17



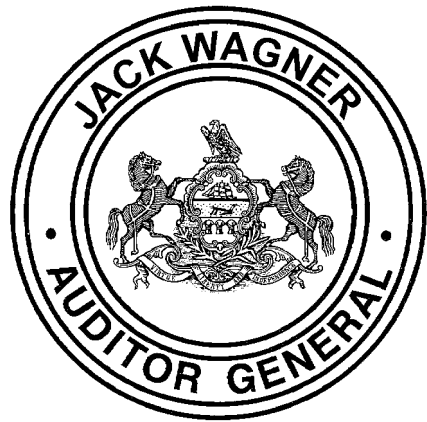
BACKGROUND

This audit report is a public record, which must be available for examination by all interested citizens and volunteer firefighters' relief association (VFRA) members.

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.

This department conducts its audits of volunteer firefighters' relief associations in accordance with generally accepted auditing standards. Representations contained in the accompanying financial statements are the responsibility of the relief association's management. This department's responsibility for those statements is confined solely to an expression of our opinion as to the fairness of management's representation of the financial statements taken as a whole.

Act 84 requires that the relief association be governed in accordance with bylaws, which establish the association's operating procedures. Act 84 provides that the primary purpose of a relief association is to afford financial protection to volunteer firefighters against misfortunes suffered during fire service participation. To fulfill this purpose, Act 84 authorizes specific types of expenditures and outlines appropriate 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.



Independent Auditor's Report

Mr. John Penyak, President
MARIETTA SPECIAL FIRE POLICE
VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lancaster County

We have audited the accompanying Statement of Monetary Assets Arising From Cash Transactions as of December 31, 2005, and the related Statement of Cash Receipts, Disbursements, and Changes in Cash of the Marietta Special Fire Police Volunteer Firefighters' Relief Association for the period January 1, 2003 to December 31, 2005. These financial statements are the responsibility of the relief association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Department of the Auditor General 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. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation 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*.

Independent Auditor's Report (Continued)

As described in Note 2, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the monetary assets arising from cash transactions of the Marietta Special Fire Police Volunteer Firefighters' Relief Association as of December 31, 2005, and the cash receipts, disbursements, and changes in cash for the period January 1, 2003 to December 31, 2005, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2006, on our consideration of the Marietta Special Fire Police Volunteer Firefighters' Relief Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

August 2, 2006

JACK WAGNER
Auditor General

MARIETTA SPECIAL FIRE POLICE VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
STATEMENT OF MONETARY ASSETS ARISING FROM CASH TRANSACTIONS
DECEMBER 31, 2005

ASSETS:

Cash (note 3)	<u>\$ 10,738</u>
Total Monetary Assets	<u>\$ 10,738</u>

Notes to financial statements are an integral part of this report.

MARIETTA SPECIAL FIRE POLICE VOLUNTEER
 FIREFIGHTERS' RELIEF ASSOCIATION
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
 FOR THE PERIOD JANUARY 1, 2003 TO DECEMBER 31, 2005

RECEIPTS:

Support:		
State aid (note 4)	\$	8,314
Contribution		772
Other Receipts:		
Interest income		51
Total Receipts		9,137

DISBURSEMENTS:

Fire Services:		
Equipment purchased		4,078
Total Disbursements		4,078
Net Increase or (Decrease) In Cash		5,059
Cash Balance, January 1		5,679
Cash Balance, December 31	\$	10,738

Notes to financial statements are an integral part of this report.

MARIETTA SPECIAL FIRE POLICE VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION

Pursuant to the Act of June 11, 1968, (P.L. 149, No. 84), as amended, the Marietta Special Fire Police Volunteer Firefighters' Relief Association is a charitable organization that was formed to afford financial protection to volunteer firefighters and to encourage individuals within the community to participate in volunteer fire service.

Act 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws regulate the specific procedures by which the association assets are managed.

The Marietta Special Fire Police Volunteer Firefighters' Relief Association is affiliated with the Marietta Special Fire Police Association.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The relief association's records are maintained on a cash basis, and the statement of cash receipts and disbursements reflect only cash received and disbursed. Therefore, receivables and payables, long-lived assets, accrued income and expenses, and depreciation, which would otherwise be recognized under accounting principles generally accepted in the United States of America (GAAP) and which may be material in amount, are not recognized in the accompanying financial statements.
- B. Fixed assets are recognized as expenditures at the time of purchase, rather than being capitalized and depreciated over their estimated useful lives.
- C. The relief association did not adopt Statement of Financial Accounting Standard (SFAS) No. 117 since they do not follow GAAP.
- D. The nature of the relief association's monetary assets is considered to be unrestricted.

3. CASH

Cash consisted of the following at December 31, 2005:

Checking account	\$ 100
Savings account	<u>10,638</u>
Total Cash	<u>\$ 10,738</u>

MARIETTA SPECIAL FIRE POLICE VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. STATE AID

Chapter 7 of the Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 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 relief association of the fire department or departments, which is or are recognized as providing service to the municipality.

During the years 2003, 2004, and 2005, the Marietta Special Fire Police Volunteer Firefighters' Relief Association received state aid from Marietta Borough in Lancaster County.

5. RELATED PARTY SITUATIONS

A related party situation exists because the volunteer firefighters' relief association is affiliated with the fire service organization disclosed in Note 1. The relief association is a distinct separate legal entity that was established primarily for the purpose of affording financial protection to the volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service.

Another related party situation exists because an officer of the relief association is an official of the municipality from which the relief association receives its state aid.

The relief association membership is aware of these situations and all transactions are approved by the relief association membership.

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

Mr. John Penyak, President
MARIETTA SPECIAL FIRE POLICE
VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lancaster County

We have audited the financial statements (cash basis) of the Marietta Special Fire Police Volunteer Firefighters' Relief Association as of December 31, 2005, and for the period January 1, 2003 to December 31, 2005, and have issued our report thereon dated August 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Department of the Auditor General 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. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marietta Special Fire Police Volunteer Firefighters' Relief Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards (Continued)**

financial reporting that, in our judgement, could adversely affect Marietta Special Fire Police Volunteer Firefighters' Relief Association's ability to record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the following findings:

Finding No. 2 – Inappropriate Presigning of Blank Checks

Finding No. 3 – Insufficient Officer's Bond Coverage

Finding No. 4 – Inadequate Minutes of Meetings

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by association officers in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described in Finding Nos. 2, 3, and 4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marietta Special Fire Police Volunteer Firefighters' Relief Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the following findings:

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

Finding No. 3 – Insufficient Officer's Bond Coverage

Finding No. 4 – Inadequate Minutes of Meetings

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards (Continued)**

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

This report is intended solely for the information and use of the relief association's members and management, and the officials of the municipalities that grant the foreign fire insurance tax monies to the volunteer firefighters' relief association. It is not intended to be and should not be used by anyone other than these specified parties.

August 2, 2006

JACK WAGNER
Auditor General

MARIETTA SPECIAL FIRE POLICE VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Obtain a Federal Tax Identification Number

Condition: As cited in the prior audit report, the volunteer firefighters' relief association failed to comply with the Tax Equity and Fiscal Responsibility Act by not obtaining a federal tax identification number. The relief association is inappropriately using the fire service organization's federal tax identification number, although the fire service organization and the relief association are separate legal entities.

Criteria: All businesses, both profit and nonprofit, are required to obtain a federal tax identification number and provide this number to any financial institution where funds are earning interest. If their tax identification number is not provided, the financial institution is required to withhold 31 percent of interest earned and transmit these funds to the Internal Revenue Service, representing federal income taxes.

Cause: While notified of this condition in the prior audit report, the relief association neglected to take the appropriate steps in order to procure its own federal tax identification number.

Effect: Failure to comply with the Tax Equity and Fiscal Responsibility Act could cause the relief association to be penalized by the Internal Revenue Service, resulting in the loss of funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We again recommend the relief association immediately apply for its own federal tax identification number through the Internal Revenue Service, and furnish this number to its financial institutions. The relief association should also consider applying to the Internal Revenue Service for tax exempt status as a nonprofit corporation under Internal Revenue Code 501(c). 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.

MARIETTA SPECIAL FIRE POLICE VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inappropriate Presigning of Blank Checks

Condition: A review of the relief association's checkbook revealed that 7 blank checks were presigned by a relief association member who is not authorized to sign checks. The presigning of blank checks negates the relief association's internal control over the disbursement process.

Criteria: Checks should be signed and co-signed only after each authorized person has reviewed and approved the nature, purpose, and propriety of each expenditure.

Cause: The relief association failed to establish internal control procedures to prevent the presigning of blank checks by authorized officers only.

Effect: The practice of presigning blank checks prevents the relief association from maintaining an adequate segregation of duties necessary to ensure the proper safeguarding of its assets.

Recommendation: We recommend that the practice of presigning blank checks be immediately discontinued. Furthermore, checks prepared for each expenditure should accompany the invoice and any other supporting documentation. This will enable each authorized official to review the nature, purpose, and propriety of each expenditure prior to signing the check. 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.

MARIETTA SPECIAL FIRE POLICE VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Insufficient Officer's Bond Coverage

Condition: The relief association did not maintain a bond in a sufficient amount to cover the authorized disbursing officer. The relief association's bond coverage was \$10,000; however, as of December 31, 2005, the cash assets totaled \$10,738.

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

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary, or otherwise, shall be bonded by corporate surety for the faithful performance of his duties. The amount of such 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 such bond shall be a proper charge against the funds of the association.

Cause: Relief association officials failed to monitor their officer's bond coverage to ensure it was in compliance with Act 84 provisions.

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

Recommendation: We recommend the relief association ensure that a faithful performance bond adequately covers the disbursing officer, as required by Act 84. This requirement may be accomplished by increasing the officer's bond coverage to an amount greater than the expected maximum balance of cash assets, or by decreasing the cash assets to an amount anticipated to remain below the coverage amount. Relief association officials should monitor the cash balance to ensure that unexpected events affecting current funds do not again result in an insufficient officer's bond coverage. 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.

MARIETTA SPECIAL FIRE POLICE VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Minutes of Meetings

Condition: The relief association failed to maintain adequate minutes of meetings, as required by Act 84. Specifically, the relief association's minutes did not address all of the financial-related transactions, quorum requirements were not met for some meetings, and relief association minutes are commingled with the fire service organization's minutes.

Criteria: Act 84 at 53 P.S. § 8505(a) states, in part, that the relief association:

. . . must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

Cause: Relief association officials were unaware that maintaining detailed minutes of relief association meetings, separate from the fire service organization meeting minutes, was required by Act 84.

Effect: The failure to maintain separate detailed minutes of meetings prevented the verification as to whether all relief association business was presented before the membership for approval.

Recommendation: We recommend the relief association maintain detailed minutes of meetings, including all financial-related business conducted by the relief association. In addition, the relief association should ensure that the relief association's minutes are maintained separately from the fire service organization minutes. Additionally, official meetings can be held only if the established quorum of members are present. 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.

MARIETTA SPECIAL FIRE POLICE VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
COMMENTS

PRIOR AUDIT RECOMMENDATIONS

The relief association has complied with the following prior audit recommendations:

- Inadequate Signatory Authority for the Disbursement of Funds

By requiring more than one signature on all negotiable instruments.

- Inappropriate Commingling of Funds

By ensuring all relief association expenses are paid directly from a relief association account.

MARIETTA SPECIAL FIRE POLICE VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Marietta Special Fire Police Volunteer Firefighters' Relief Association Officers:

Mr. John Penyak, President

Mr. Mervin Gerhart, Secretary

Mr. Oliver C. Overlander II, Treasurer

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

Ms. Jody Shaffner, Secretary
Marietta 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.