

MAYTOWN-EAST DONEGAL TOWNSHIP FIREMEN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

**MAYTOWN-EAST DONEGAL VOLUNTEER FIREFIGHTERS' RELIEF
ASSOCIATION**

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

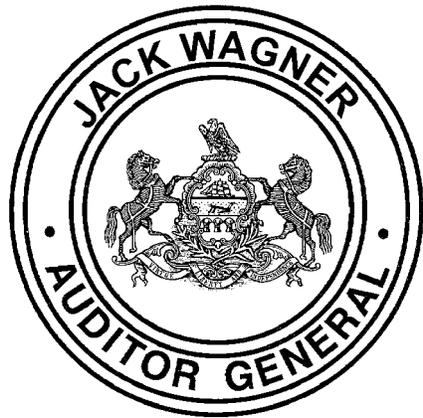
FOR THE PERIOD

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 Maytown-East Donegal 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 Maytown-East Donegal Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

| <u>Municipality</u> | <u>County</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> |
|-----------------------|---------------|-------------|-------------|-------------|
| East Donegal Township | Lancaster | \$26,741 | \$30,164 | \$30,756 |

BACKGROUND (Continued)

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

Maytown-East Donegal Township Fire Department

Mr. Daniel Houseal, President
MAYTOWN-EAST DONEGAL VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Lancaster County

We have conducted a compliance audit of the Maytown-East Donegal 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 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 Maytown-East Donegal 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 Maytown-East Donegal Volunteer Firefighters' Relief Association's cash balance as of December 31, 2006, 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, 2004 to December 31, 2006, found, in all significant respects, the Maytown-East Donegal 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 Maytown-East Donegal Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2006, had a cash balance of \$30,244 and no investments.

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Inadequate Signatory Authority for the Disbursement of Funds

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

October 25, 2007

JACK WAGNER
Auditor General

MAYTOWN-EAST DONEGAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Maytown-East Donegal Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative roster of all equipment owned.

- Failure to Maintain Officer's Bond Coverage

By maintaining officer's bond coverage in an amount greater than the balance of cash assets.

- Inappropriate Ownership of a Quick Response Vehicle

By transferring the title of the vehicle to the relief association.

MAYTOWN-EAST DONEGAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

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

| <u>Date</u> | <u>Check No.</u> | <u>Expenditure Description</u> | <u>Amount</u> |
|-------------|------------------|--------------------------------|---------------|
| 06/09/04 | 890 | Training provider | \$ 250 |
| 04/07/06 | 975 | Credit card payment | 51 |
| 05/05/06 | 976 | Training provider | 320 |
| Total | | | <u>\$ 621</u> |

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 training certificates, 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 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 supporting documentation is maintained for all expenditures.

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

MAYTOWN-EAST DONEGAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices and training certificates, to determine the validity of the expenditures or that the relief association be reimbursed \$621 for the undocumented expenditures. We also recommend that the relief association officials maintain 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.

MAYTOWN-EAST DONEGAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – 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 relief association's checking account, although the signatures of at least two relief association officers are required. Specifically, we detected four checks drawn on the relief association's checking account that only contained the signature of one officer.

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.

In addition, Article VIII, Section 1, of the relief association's bylaws states, in part:

The signatures of at least two officers, one of whom shall be the treasurer, shall be required for the issuance of relief association checks.

Cause: Relief association officials were aware of the Act 84 provision, which requires the signatures of at least two officers for the disbursement of funds but failed to ensure each check contained two signatures.

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 and follow 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.

MAYTOWN-EAST DONEGAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2006

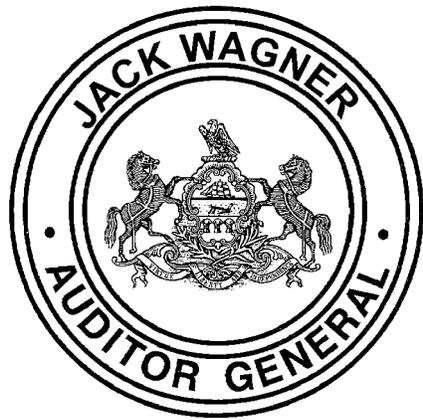
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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 | \$ 500 |
| Relief benefits | 1,953 |
| Tokens of sympathy and goodwill | 756 |
| Total Benefit Services | \$ 3,209 |
| | |
| Fire Services: | |
| Equipment purchased | \$ 55,356 |
| Equipment maintenance | 2,827 |
| Training expenses | 4,253 |
| Total Fire Services | \$ 62,436 |
| | |
| Administrative Services: | |
| Miscellaneous administrative expenses | \$ 1,639 |
| Total Administrative Services | \$ 1,639 |
| | |
| Other Expenditures: | |
| Principal payments on loan | \$ 27,607 |
| Interest payments on loan | 9,515 |
| Undocumented expenditures | 621 |
| Total Other Expenditures | \$ 37,743 |



MAYTOWN-EAST DONEGAL VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Maytown-East Donegal Volunteer Firefighters' Relief Association Officers:

Mr. Daniel Houseal, President

Ms. Gwen Smith, Secretary

Mr. John R. Cook, Treasurer

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

Ms. Barbara A. Stoner, Secretary
East Donegal 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.