

MILL CREEK BOROUGH VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION

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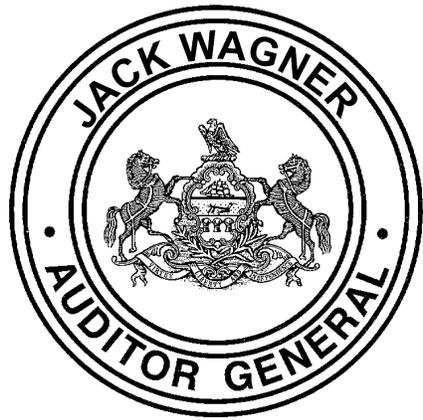
MILL CREEK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

HUNTINGDON COUNTY

COMPLIANCE AUDIT REPORT

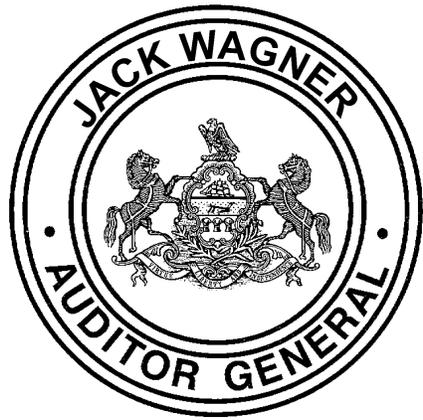
FOR THE PERIOD

JANUARY 1, 2006 TO DECEMBER 31, 2008



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

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Brady Township	Huntingdon	\$1,916	\$1,943	\$1,998
Henderson Township	Huntingdon	\$1,944	\$1,992	\$2,043*
Mill Creek Borough	Huntingdon	\$1,525	\$1,558	\$1,599

* The 2008 706-B receipt form remitted by Henderson Township indicates that in 2008 Henderson Township allocated state aid, in the amount of \$2,043, to the Mill Creek Volunteer Firefighters' Relief Association. However, the \$2,043 allocation was not deposited into a relief association account until August 14, 2009. See Finding No. 1 contained in this report.

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

Mill Creek Borough Volunteer Fire Company

Mr. Wayne Cohenour, President
MILL CREEK VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Huntingdon County

We have conducted a compliance audit of the Mill Creek 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, 2008.

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 Mill Creek 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 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 include tests of documentary evidence supporting the Mill Creek Volunteer Firefighters' Relief Association recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of Mill Creek Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, with the custodians of the funds, customers, 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, 2006 to December 31, 2008, found, in all significant respects, the Mill Creek 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 Mill Creek Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$15,166 and no investments.

Finding No. 1 – Failure to Timely Receive and Deposit State Aid

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Insufficient Officer's Bond Coverage

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

April 22, 2009

JACK WAGNER
Auditor General

MILL CREEK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

- Failure to Maintain Minutes of Meetings

The Mill Creek Volunteer Firefighters' Relief Association has complied with the prior audit finding and recommendation by maintaining minutes for all relief association meetings.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

- Noncompliance With Prior Audit Recommendation –
Insufficient Officer's Bond Coverage

The Mill Creek Volunteer Firefighters' Relief Association has partially complied with the prior audit finding and recommendation by obtaining bond coverage on February 8, 2006, in an amount greater than the balance of cash assets. However, during the audit period, the relief association's bond coverage was again not maintained in a sufficient amount to cover the balance of cash assets. This is discussed in detail in Finding No. 2 contained in this report.

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

MILL CREEK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATION

Finding No. 1 – Failure to Timely Receive and Deposit State Aid

Condition: During the current audit, we determined that the relief association did not timely receive its 2008 state aid allocation from Henderson Township in the amount of \$2,043. During the audit, we brought this matter to the relief association's and municipality's attention. The 2008 state aid funds from Henderson Township, in the amount of 2,043, were not deposited until August 14, 2009.

Criteria: The foreign fire insurance tax allocations were distributed to the municipal treasurers' on September 18, 2008, who are to forward the state aid to the volunteer firefighters' relief association within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Upon receipt of the state aid allocations, the relief association should ensure the funds are timely deposited into a relief association account.

Prudent business practice dictates that if the relief association does not timely receive these funds, it should contact the appropriate government agency requesting that the funds be timely forwarded.

Cause: The relief association neglected to establish internal control procedures to ensure that all income be received, recorded, and deposited in a timely manner.

The 706-B receipt form submitted by Henderson Township for the 2008 state aid indicates that the check representing the state aid allocation from Henderson Township was drawn on December 9, 2008, in the amount of \$2,403. After discussing this matter with the Henderson Township municipal officials, we determined that the check had not been cashed at the time of the audit. We could not determine if the municipality had actually distributed the check that was drawn on December 9, 2008. However, the relief association officials had indicated they never received the check in the amount of \$2,043. During 2008, the relief association received a check from Henderson Township in error. The relief association notified the municipality of this error and returned the funds to the municipality. The municipality then issued a check, dated August 4, 2009, representing the 2008 state aid, which was deposited into a relief association account on August 14, 2009.

Effect: As a result of the failure to timely receive and deposit the state aid, 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.

MILL CREEK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATION

Finding No. 1 – (Continued)

Recommendation: We recommend the relief association adopt internal control procedures to ensure the timely receipt and deposit of all state aid. Such procedures should involve written communication with the municipality when state aid funds are not timely received. A copy of this report is being furnishing to the municipal officials of Henderson Township so they are aware of the circumstances regarding the failure to timely receive and deposit the funds. 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.

MILL CREEK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATION

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Insufficient Officer's Bond Coverage

Condition: As cited in the prior audit report, the relief association did not maintain bond coverage on the disbursing officer as required by Act 84. The policy in place in the prior audit period had lapsed on November 11, 2005, and the relief association was without coverage from November 1, 2005 to February 8, 2006. The relief association had partially complied with the prior audit recommendation by obtaining bond coverage on February 8, 2006, in an amount of \$10,000 which, at the time, was greater than the maximum amount of cash assets. However, as December 31, 2008, the bond coverage remained at \$10,000 while the cash assets totaled \$15,166.

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 were aware of the Act 84 provisions regarding the maintenance of officer's bond coverage but failed to recognize that the bond coverage had been exceeded.

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

However, on April 22, 2009, the relief association increased its bond coverage to \$20,000 which, at the time, was an amount greater than the balance of cash assets.

Recommendation: We recommend the relief association ensure that a faithful performance bond adequately covers the disbursing officer, as required by Act 84. 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.

MILL CREEK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

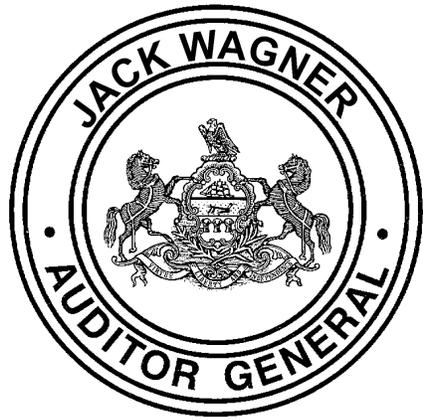
Act 84 at 53 P.S. § 8502(1) states, in part, that:

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	\$ 6,286
Relief benefits	1,654
Total Benefit Services	<u>\$ 7,940</u>



MILL CREEK VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Mill Creek Volunteer Firefighters' Relief Association Officers:

Mr. Wayne Cohenour, President

Mr. Mark Jefferies, Vice President

Ms. Carol Weaver, Secretary

Mr. Keith Bollinger, Treasurer

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

Ms. Doris M. Wagner, Secretary
Brady Township

Ms. Dawn D. Williams, Secretary
Henderson Township

Ms. Donna Montz, Secretary
Mill Creek 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.