

# COMPLIANCE AUDIT

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## Mill Creek Borough Volunteer Fire Company Relief Association Huntingdon County, Pennsylvania For the Period January 1, 2018 to December 31, 2020

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October 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. Wayne Cohenour, President  
Mill Creek Borough Volunteer Fire  
Company Relief Association  
Huntingdon County

We have conducted a compliance audit of the Mill Creek Borough Volunteer Fire Company Relief Association (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, 2018 to December 31, 2020.

The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective identified above and was not, nor was it required to be, conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the 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. Relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objective. We believe that our audit provides a reasonable basis for our conclusions.

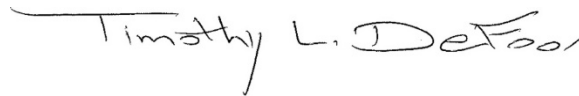
Based on our audit procedures, we conclude that, for the period January 1, 2018 to December 31, 2020, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Untimely Deposit Of State Aid

Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 3 – Failure To Adhere To Relief Association Bylaws

The contents of this report were discussed with the management of the relief association and, where appropriate, their responses have been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

September 22, 2021

Timothy L. DeFoor  
Auditor General

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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, 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 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 volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct 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 relief associations 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 that is or are recognized as providing the service to the municipality.

**BACKGROUND – (Continued)**

The relief association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Brady Township	Huntingdon	\$1,774	\$1,880	\$1,900**
Henderson Township	Huntingdon	\$2,602	\$2,823	\$2,861*
Mill Creek Borough	Huntingdon	\$1,160	\$1,233	\$1,258

\* The 2020 state aid allocation received from Henderson Township was not deposited by the relief association until March 22, 2021 as disclosed in Finding No. 1 in this report.

\*\* Although Brady Township prepared and returned a Certification Form AG 385 for 2020, the date the township distributed the 2020 state aid to the relief association could not be determined because the township failed to submit a Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this department as required by the instructions accompanying Form 706-B and the instructions accompanying the 2020 state aid allocation received by the township disclosing this information.

Brady Township is still required to submit a 2020 Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this Department as soon as possible.

Based on the relief association’s records, its total cash as of December 31, 2020 was \$19,594, as illustrated below:

Cash	\$ <u>19,594</u>
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**BACKGROUND – (Continued)**

Based on the relief association’s records, its total expenditures for the period January 1, 2018 to December 31, 2020 were \$14,150, as noted below. The accuracy of these expenditures was evaluated as part of the Department’s audit to conclude on the relief association’s compliance with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds.<sup>1</sup> **The scope of the Department’s audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Benefit Services:

Insurance premiums	<u>\$ 5,626</u>
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Fire Services:

Equipment purchased	\$ 7,203
Equipment maintenance	<u>1,221</u>

Total Fire Services	<u>\$ 8,424</u>
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Administrative Services:

Bond premiums	<u>\$ 100</u>
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Total Expenditures	<u><u>\$ 14,150</u></u>
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The volunteer firefighters’ relief association and the affiliated fire service organization are separate, legal entities. The relief association is affiliated with the following fire service organization:

Mill Creek Borough Volunteer Fire Company

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<sup>1</sup> Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

MILL CREEK BOROUGH VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Untimely Deposit Of State Aid**

Condition: The relief association did not deposit the 2020 state aid allocation it received from Henderson Township in the amount of \$2,861, until March 22, 2021. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 22, 2020, who forwarded this state aid to the relief association on October 19, 2020, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

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 establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: Relief association officials stated that the 2020 Henderson Township state aid allocation was erroneously deposited into the affiliated fire company's account. Consequently, the relief association officials failed to establish procedures which require that all income received be recorded and deposited in a timely manner.

Effect: As a result of the untimely deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that 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.



MILL CREEK BOROUGH VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

**Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage**

Condition: The relief association 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 \$20,000; however, from the period of October, 5 2018 to February 3, 2020 the relief association cash balance was higher than the Surety (Fidelity) bond coverage. In addition, on March 22, 2021 (post audit period), the relief association deposited funds into the cash account resulting in the cash assets balance again exceeding the bond coverage limit.

Criteria: Section 7415(c)(4) of Act 118 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: Relief association officials failed 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 and its existing bond coverage amount.

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 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.

MILL CREEK BOROUGH VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

In addition, 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, on August 23, 2021, the relief association expended funds resulting in a decrease in the cash assets balance to an amount within their bond coverage limit.

Auditor's Conclusion: We reviewed documentation verifying that the relief association decreased the cash asset balance to an amount within the existing bond coverage amount on August 23, 2021. Compliance for sufficient bond coverage during the next audit period will be subject to verification through our next audit.

**Finding No. 3 – Failure To Adhere To Relief Association Bylaws**

Condition: The relief association was unable to provide any documentation to support the adherence to a provision in the association's bylaws. Specifically, the relief association did not provide evidence it abided by the following bylaw stipulation:

- The signature of two officers is required for any withdrawals from their savings account.

Issuing withdrawal tickets without documenting the application of the signatures of two relief association officers for all negotiable instruments negates the relief association's internal control over the disbursement process.

Criteria: The relief association's bylaws stipulate the following:

- Article VII - The signatures of at least two officers, one of whom shall be the Treasurer, shall be required for the issuance of relief association checks, withdrawal from the association savings account, the redemption of any relief association investment or on any other negotiable instrument issued by the association.

MILL CREEK BOROUGH VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Prudent business practice dictates that the relief association should adhere to all provisions stipulated in the relief association's bylaws to ensure that the relief association conducts its affairs with proper authorization.

Cause: Relief association officials did not maintain copies of withdrawal tickets from their savings account and did not provide any documentation that there were two signatures on the withdrawal tickets or on any cashier's checks issued.

Effect: As a result of the relief association not following the mandatory provisions stipulated in the bylaws, the relief association may have conducted its affairs without proper authorization. Also, as a result of the relief association officer issuing withdrawal tickets without documenting the signatures of two relief association officers, assets are placed at greater risk as expenditures are made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

Recommendation: We recommend that the relief association officials review the bylaws governing their organization and establish guidelines and procedures to meet the provisions contained in the bylaws in order to assure that the association conducts its affairs with proper authorization. Also, we recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the treasurer, are included on all relief association negotiable instruments as defined by Act 118 and that the relief association maintains documentation to support the application of the signatures of two authorized relief association officers on all negotiable instruments. 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

MILL CREEK BOROUGH VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Mill Creek Borough Volunteer Fire Company Relief Association Governing Body:

**Mr. Wayne Cohenour**  
President

**Mr. Mark Jeffries**  
Vice President

**Ms. Patty Swanger**  
Secretary

**Mr. Keith Bollinger**  
Treasurer

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

**Ms. Doris M. Wagner**  
Secretary  
Brady Township

**Ms. Teresa L. Laird**  
Secretary  
Henderson Township

**Ms. Donna Montz**  
Secretary  
Mill Creek Borough

MILL CREEK BOROUGH VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION  
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