

CECIL TOWNSHIP VOLUNTEER FIRE COMPANY NO. 2 RELIEF ASSOCIATION

WASHINGTON COUNTY

COMPLIANCE AUDIT REPORT

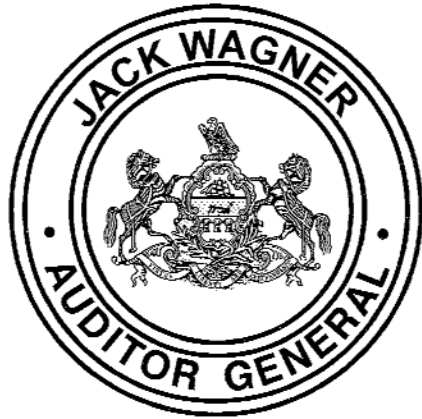
FOR THE PERIOD

JANUARY 1, 2008 TO DECEMBER 31, 2010



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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 Cecil Township Volunteer Fire Company No. 2 Relief Association, herein referred to as Cecil Township No. 2 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 118 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 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 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 Cecil Township No. 2 Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Cecil Township	Washington	\$27,054	\$24,485	\$27,559

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Cecil Township No. 2 Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Cecil Township Volunteer Fire Company No. 2

Mr. Frank Egizio, President
CECIL TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Washington County

We have conducted a compliance audit of the Cecil Township No. 2 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, 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, 2008 to December 31, 2010.

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 Cecil Township No. 2 Volunteer Firefighters' 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. 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 included tests of documentary evidence supporting the Cecil Township No. 2 Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Cecil Township No. 2 Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2010, with the custodians of the funds, debtors, 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, 2008 to December 31, 2010, found the Cecil Township No. 2 Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the two findings contained in our prior audit report. However, the Cecil Township No. 2 Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining finding contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the Cecil Township No. 2 Volunteer Firefighters' Relief Association, in all significant respects, received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the finding listed below and discussed in detail in the Finding and Recommendation section of this report. The results of our tests also indicated the Cecil Township No. 2 Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, had a cash balance of \$15,688 and no investments.

Finding – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

The contents of this report were discussed with the management of the Cecil Township No. 2 Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

February 4, 2011

JACK WAGNER
Auditor General

CECIL TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Cecil Township No. 2 Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Inappropriate Commingling of Funds

By receiving reimbursement, on January 13, 2009, from the Cecil Township Volunteer Fire Company No. 2, in the amount of \$10,811, for the loan proceeds which were erroneously deposited into the fire company bank account.

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Cecil Township No. 2 Volunteer Firefighters' Relief Association has not complied with one of the two prior audit findings. This finding is noted below and discussed in detail in the Finding and Recommendation section of this report:

- Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

While the relief association obtained reimbursement for \$5,252 from the affiliated fire company, for the prior audit period's unauthorized expenditures, the relief association expended \$5,874 for services which are not authorized under Act 118 during the current audit period, as discussed in the Finding and Recommendation section of this report.

We are concerned with the volunteer firefighters' relief association's continued failure to adhere to our previously reported audit recommendation. The association management should strive to implement the recommendation and corrective action noted in this audit report.

CECIL TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Condition: As cited in our prior audit report, the relief association expended funds for the following items that are not authorized by Act 118:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
11/16/09	147	Fire company commercial insurance	\$ 2,881
11/15/10	182	Fire company commercial insurance	<u>2,993</u>
Total			<u>\$ 5,874</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(2 and 12) states:

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

- (2) To purchase contracts of insurance which, at a minimum, shall afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and may also provide, in the order named: (i) for payments to the surviving spouse or other dependents of a member in the event of member's death; (ii) for protection of active firefighters against disease; (iii) for replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches and the like, where those devices have been lost or damaged while the owner was engaged in the fire service or where the need for those devices arose because of functional impairment attributable to participation in the fire service; (iv) for repair or replacement, if necessary, of articles of clothing or pocket pagers damaged or lost in the course of participation in the fire service; and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

- (12) To secure insurance against the legal liability of volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or performing their duties as special fire police.

CECIL TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – (Continued)

Because 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) has been established whereby the DCED provides interpretation of Act 118. Costs associated with fire company commercial insurance have been deemed by DCED to not qualify as an insurance benefit which directly covers the volunteer firefighter; consequently, these disbursements for fire company commercial insurance are not authorized under Act 118.

Cause: While notified of this condition during our prior audit, relief association officials, again, expended relief funds to purchase fire company insurance coverage that does not qualify as authorized use of relief association funds.

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 118.

However, as a result of our audit, and subsequent to the audit period, on January 24, 2011 and January 25, 2011, the relief association received reimbursement, in the amounts of \$2,881 and \$2,993 respectively, from the Cecil Township Volunteer Fire Company No. 2, for the unauthorized expenditures.

Recommendation: We, again, recommend the relief association officials ensure it is familiar with Act 118 at 35 Pa.C.S. § 7416(f). 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 complied with the recommendation.

CECIL TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2010

Act 118 at 35 Pa.C.S. § 7412 states: 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. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 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.

Furthermore, 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	\$ 10,708
Tokens of sympathy and goodwill	594
Total Benefit Services	\$ 11,302
Fire Services:	
Equipment purchased	\$ 44,745
Equipment maintenance	5,182
Training expenses	9,086
Fire prevention materials	1,514
Total Fire Services	\$ 60,527
Administrative Services:	
Miscellaneous administrative expenses	\$ 527
Total Administrative Services	\$ 527
Other Expenditures:	
Principal payments on loan	\$ 27,984
Interest payments on loan	7,924
Total Other Expenditures	\$ 35,908

CECIL TOWNSHIP NO. 2 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Cecil Township No. 2 Volunteer Firefighters' Relief Association Governing Body:

Mr. Frank Egizio, President

Mr. Paul Smith, Vice President

Ms. Ashley Wozniak, Secretary

Ms. Toni Zombeck, Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association.

Mr. Donald A. Gennuso, Secretary
Cecil 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.