



THE HIGHLAND TOWNSHIP VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

ELK COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 31, 2009



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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 Highland Township Volunteer Firemen's Relief Association, herein referred to as Highland Township 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 Highland Township Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Highland Township	Elk	\$2,650	\$2,705	\$2,581

BACKGROUND (Continued)

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

Highland Township Volunteer Fire Department

Mr. William Edinger, President
HIGHLAND TOWNSHIP VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Elk County

We have conducted a compliance audit of the Highland Township 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, 2007 to December 31, 2009.

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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Highland Township 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Highland Township Volunteer Firefighters' Relief Association's recorded financial

transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Highland Township Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. 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 objective.

The results of our audit, for the period January 1, 2007 to December 31, 2009, found the Highland Township 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 findings listed below and discussed later in this report. The results of our tests also indicated the Highland Township Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$4,573 and an investment balance with a fair value of \$1,208.

Finding No. 1 – Unauthorized Expenditures

Finding No. 2 – Failure to Maintain Officer's Bond Coverage

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

July 23, 2010

JACK WAGNER
Auditor General

HIGHLAND TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

Condition: The relief association expended \$900 for officers' compensation during the audit period without proper authorization in the relief association bylaws. The \$900 in compensation was paid to six officers; three were fire department officers serving in dual capacities as fire department and relief association officers, and the remaining three served as officers of the fire department only. Of the \$900 in compensation paid, \$400 was paid to the dual officers and the remaining \$500 was paid to the fire department only officers. The \$900 paid as compensation to the officers is considered an unauthorized expenditure.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1) states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.

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

Funds of this association shall not be expended for any purpose other than those authorized by the provisions of Act 84 and the associations bylaws.

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. DCED has deemed expenditures associated with payment of compensation to fire department officers as unauthorized relief association expenditures.

Furthermore, prudent business practice dictates that if a relief association chooses to compensate relief association officers, the relief association's bylaws should contain provisions allowing for the payment of compensation to relief association officers. In addition, the amount of compensation paid must be approved by the membership during membership meetings and such approval must be documented in the minutes of the meetings. While the amount of compensation paid to the officers was documented in the relief association minutes, a provision allowing for the payment of compensation to relief association officers was not included in the relief association's bylaws.

HIGHLAND TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: The relief association elected a new treasurer in 2009. The treasurer stated the relief association was aware that compensation to officers could be paid using relief funds. However, the treasurer was not aware that compensation paid to fire department only officers was not an authorized expense under Act 118, while compensation paid to relief association officers was deemed an allowable expense. In addition, the relief association officers were not aware that a provision allowing for the payment of compensation to relief association officers should be included in the bylaws.

Effect: As a result of the relief association's payment of compensation to officers, \$900 in relief association funds were not available for investment purposes, or to pay for expenditures authorized by Act 118. Furthermore, the failure of the relief association to include in its bylaws a provision allowing for the payment of compensation to relief association officers results in a lack of internal control over, or clear authority for the authorization to pay for, relief association officers' compensation.

However, as a result of our audit, and subsequent to the period under review, on July 23, 2010, the relief association received reimbursement of \$900 from the fire department for the \$900 paid as compensation to all of the officers.

Recommendation: We recommend that relief association discontinue the practice of paying compensation to fire department officers. In addition, we recommend that the relief association pay compensation to relief officers only after amending its bylaws to include a provision allowing for the payment of compensation to relief association officers, which would include those serving in a dual capacity. Furthermore, the approval of compensation paid to relief association officers should be documented in the minutes of the meetings of the relief association. 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.

HIGHLAND TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Maintain Officer's Bond Coverage

Condition: The relief association failed to maintain bond coverage, from November 3, 2007 to January 11, 2009, on the disbursing officer as required by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(4) 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 accidentally let the bond lapse after a change in officers occurred.

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

However, the relief association officer's obtained sufficient bond coverage on January 12, 2009.

Recommendation: We recommend the relief association continued to maintain officer's bond coverage in an amount greater than the maximum cash balance as required by Act 118. 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.

HIGHLAND TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 31, 2009

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	\$ 1,570
Total Benefit Services	\$ 1,570
Fire Services:	
Equipment purchased	\$ 8,489
Training expenses	1,406
Total Fire Services	\$ 9,895
Administrative Services:	
Officer compensation	\$ 900
Other administrative expenses	80
Total Administrative Services	\$ 980

HIGHLAND TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Highland Township Volunteer Firefighters' Relief Association Governing Body:

Mr. William Edinger, President

Ms. Cindy A. Hulings, Vice President

Ms. Tara Hilyer, Secretary

Ms. Misty Edinger, Treasurer

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

Ms. Leatrice Maze, Secretary
Highland 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.