

MAHAFFEY VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

CLEARFIELD COUNTY

COMPLIANCE AUDIT REPORT

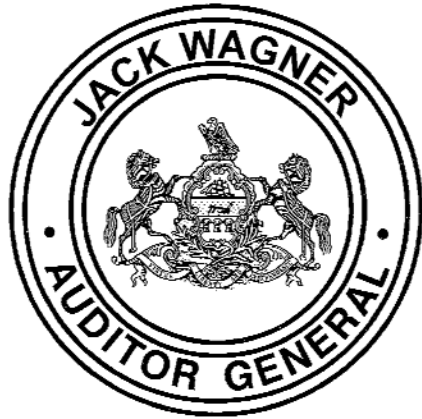
FOR THE PERIOD

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 Mahaffey Volunteer Firemen's Relief Association, herein referred to as Mahaffey 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.

BACKGROUND (Continued)

The Mahaffey Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Bell Township	Clearfield	\$2,417	\$2,510	\$2,280
Burnside Township	Clearfield	\$1,471	\$1,516	\$1,361
Chest Township	Clearfield	\$1,011	\$1,021	\$ 927
Ferguson Township	Clearfield	\$1,500	\$1,500	\$1,500
Greenwood Township	Clearfield	\$2,407	\$2,479	\$2,202
Mahaffey Borough	Clearfield	\$1,668	\$1,712	\$1,546
New Washington Borough	Clearfield	\$ 413	\$ 428	\$ 372*
Newburg Borough	Clearfield	\$ 381	\$ 391	\$ 367

* The relief association deposited the 2009 state aid allocation from New Washington Borough on January 11, 2010. (See Finding No. 3 in the Findings and Recommendations section of this report).

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

Community Volunteer Fire Department

Mr. Donald Sheeder, President
MAHAFFEY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Clearfield County

We have conducted a compliance audit of the Mahaffey 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 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 Mahaffey 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 Mahaffey Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Mahaffey 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 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, 2007 to December 31, 2009, found the Mahaffey Volunteer Firefighters' Relief Association took appropriate corrective action to address one of the three findings contained in our prior audit report. However, the Mahaffey Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining findings 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 Mahaffey 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 in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Mahaffey Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$29,274 and an investment balance with a fair value of \$1,834.

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Finding No. 3 – Untimely Receipt and Deposit of State Aid

Finding No. 4 – Insufficient Officer's Bond Coverage

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

November 23, 2010

JACK WAGNER
Auditor General

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Mahaffey Volunteer Firefighters' Relief Association has complied with the following prior audit finding and recommendation:

- Inadequate Signatory Authority for the Disbursement of Funds

By requiring more than one signature on all negotiable instruments.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The Mahaffey Volunteer Firefighters' Relief Association has not complied with two of the three following prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Even though the relief association received reimbursement from Community Volunteer Fire Department, in the amount of \$584, for the unauthorized expenditures that were made during the prior audit period, the relief association, again, incurred unauthorized expenditures during the current audit period.

- Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Even though the relief association received reimbursement from Community Volunteer Fire Department, in the amount of \$599, for the undocumented expenditures that were made during the prior audit period, the relief association, again, failed to maintain adequate supporting documentation for expenditures made during the current audit period.

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

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Unauthorized Expenditures

Condition: 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>
01/23/07	806	Window channel for fire department owned vehicle	\$ 122
02/26/07	811	Repairs to a carburetor	66
Total			<u>\$ 188</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(1 and 11) 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.
- (11) To purchase safeguards for preserving life, health and safety of volunteer firefighters to ensure their availability to participate in the volunteer fire service.

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 maintenance of fire department owned vehicles had been deemed by DCED to not qualify as an authorized expense; these disbursements are not authorized under Act 118.

Cause: As recommended in our prior audit report, relief association officials neglected to become familiar with Act 118 to aid them in determining the propriety of expenditures.

Effect: As a result of these improper expenditures, relief association funds, again, were not available for investment purposes, or to pay for expenditures authorized by Act 118.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Subsequently, on January 25, 2011, the relief association received reimbursement, in the amount of \$188, from the Community Volunteer Fire Department, for the unauthorized expenditures.

Recommendation: We, again, recommend the relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of 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 and indicated they will take action to comply with the recommendation.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Undocumented Expenditures

Condition: The relief association, again, was unable to provide adequate supporting documentation for certain expenditures. During the current audit period, the following expenditures lacked supporting documentation:

<u>Date</u>	<u>Check No.</u>	<u>Description</u>	<u>Amount</u>
01/17/07	804	Postage expense	\$ 78
03/07/07	816	Equipment maintenance	100
04/06/07	817	Equipment maintenance	26
01/02/08	Debit	Training expense	179
02/23/09	4041	Training expense	160
Total			<u>\$ 543</u>

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), [FN1] known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Without adequate supporting documentation, such as invoices, this department is unable to determine whether relief association funds were expended for purposes authorized by Act 118. Furthermore, good business practices dictate that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: Even though cited in our prior audit report for making undocumented expenditures, relief association officials, again, failed to maintain supporting documentation for all expenditures.

Effect: Lack of supporting documentation, such as invoices and detailed minutes of meetings, again, made it impossible to determine if the expenditures were made in accordance with Act 118 at 35 Pa.C.S. § 7416(f). In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being misappropriated.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Subsequent to the audit period, on January 25, 2011, the relief association received reimbursement from the Community Volunteer Fire Department, in the amount of \$357, and supplied adequate supporting documentation to determine the validity of the expenditures, totaling \$186.

Recommendation: We, again, recommend 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.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Untimely Receipt and Deposit of State Aid

Condition: New Washington Borough failed to forward the 2009 state aid allocation to the volunteer firefighters' relief association within 60 days of receipt, which resulted in the untimely deposit of state aid into the relief association's account.

Criteria: The municipal treasurer is required to forward the tax allocation 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). Furthermore, pursuant to this provision of Act 205, relief association officials are required to monitor the municipality's distribution of state aid allocation to ensure the timely receipt of its respective state aid allocation checks.

Cause: The \$372 foreign fire insurance tax allocation check distributed to the New Washington Borough treasurer was dated September 14, 2009. The New Washington Borough municipal treasurer did not complete the 706-B form for the 2009 calendar year, but did write a check on an unknown date in the amount of \$372 to the relief association. The relief association received the check on an unknown date, and the relief association deposited the check on January 11, 2010. It is the relief association's responsibility to monitor the receipt of the state aid from each municipality. The relief association failed to monitor the municipality's distribution of state aid allocations to ensure the timely receipt of its respective state aid allocation checks. If the relief association has not received its state aid allocation check from the municipality by December 1 of each year, the relief association officers should contact the municipality to expedite the distribution of the funds due the relief association.

Effect: As a result of the state aid not being timely received and deposited, funds were not available, as soon as they should have been, 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 the relief association implement procedures to monitor the municipality's distribution of state aid allocations to ensure the timely receipt and deposit of all state aid allocation checks. 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.

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Insufficient Officer's Bond Coverage

Condition: The relief association did not maintain a bond in a sufficient amount to cover the authorized disbursing officer. The relief association's bond coverage was \$25,000; however, as of December 31, 2009, the cash assets totaled \$29,274.

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 failed to monitor the cash balance to ensure the officer's bond coverage was in compliance with Act 118 provisions.

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.

Recommendation: We recommend the relief association ensure that a performance bond adequately covers the authorizing disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the officer's bond coverage to an amount greater than the expected maximum balance of cash assets, or by decreasing the cash assets to an amount anticipated to remain below the coverage amount. 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.

MAHAFFEY 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	\$ 3,254
Tokens of sympathy and goodwill	50
Total Benefit Services	\$ 3,304
Fire Services:	
Equipment purchased	\$ 14,960
Equipment maintenance	5,822
Training expenses	1,999
Total Fire Services	\$ 22,781
Administrative Services:	
Miscellaneous administrative expenses	\$ 123
Total Administrative Services	\$ 123
Other Expenditures:	
Undocumented expenditures	\$ 543
Total Other Expenditures	\$ 543

MAHAFFEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Mahaffey Volunteer Firefighters' Relief Association Governing Body:

Mr. Donald Sheeder, President

Mr. Brian Wright, Vice President

Ms. Theresa Dilts, Secretary

Mr. Josh Bush, Treasurer

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

Ms. Barbara H. Kauffman, Secretary
Bell Township

Ms. Diana L. Rorabaugh, Secretary
Burnside Township

Ms. Tanya Kunsman, Secretary
Chest Township

Ms. Betty Lou Stumph, Secretary
Ferguson Township

Mr. Morton Johns, Secretary
Greenwood Township

Ms. Sally M. Long, Secretary
Mahaffey Borough

Ms. Desiree Pearce, Secretary
New Washington Borough

Ms. Jennifer M. Peterson, Secretary
Newburg 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.