



THE MAHONING VALLEY FIRE CO. NO. 1, INC.,
FIREMEN'S RELIEF ASSOCIATION, LEHIGHTON, RD 2,
PENNSYLVANIA

CARBON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009 TO DECEMBER 31, 2011

RELEASED OCTOBER 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL





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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Bryan Pollock, President
MAHONING VALLEY VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Carbon County

We have conducted a compliance audit of the Mahoning Valley 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, 2009 to December 31, 2011.

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 Mahoning Valley 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

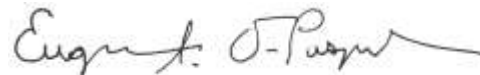
and implemented. Our audit procedures also included tests of documentary evidence supporting the Mahoning Valley Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Mahoning Valley Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2011, 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, 2009 to December 31, 2011, found the Mahoning Valley 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 later in this report. The results of our tests also indicated the Mahoning Valley Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2011, had a cash balance of \$95,901 and an investment balance with a fair value of \$50,000.

Finding – Failure to Define Discretionary Benefits

The contents of this report were discussed with the management of the Mahoning Valley Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.

July 22, 2013



EUGENE A. DEPASQUALE
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 Mahoning Valley Fire Co. No.1, Inc., Firemen's Relief Association, Lehighton, RD 2, Pennsylvania, herein referred to as Mahoning Valley 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 Mahoning Valley Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Mahoning Township	Carbon	\$27,523	\$30,979	\$49,846

BACKGROUND (Continued)

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

Mahoning Valley Volunteer Fire Company No. 1, Inc.

MAHONING VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION

Finding – Failure to Define Discretionary Benefits

Condition: The relief association did not formally define and approve discretionary benefits in the form of stipends that were being paid to its Treasurer. During the current audit period, the relief association paid stipends of \$450 to the Treasurer. Although these expenditures were authorized by Act 118, the types, amounts, and criteria to be met before receiving the benefits were not described in the bylaws, a formal policy approved by the relief association membership, or in the official meeting minutes.

Criteria: Act 118 at 35 Pa.C.S. § 7415 (c)(6) states, the bylaws shall:

- (6) Establish procedures for the approval and payment of expenditures, investments of funds, and sale of investments.

In addition, Act 118 at 35 Pa. C.S. § 7413 (3) states funds shall be available:

- (3) For payment, either by insurance or **by operation of a benefit fund** of a sum certain to designated beneficiaries of a participating member following the death of a member for any cause and **to establish criteria which members must meet in order to qualify** as participants. . .

Furthermore, discretionary benefits payments, such as stipends, must be established by provisions set forth in the bylaws, a formal relief association policy, or in the official meeting minutes.

Cause: Relief association officials were not aware of the specific stipulations of Act 118 and did not perceive the formal approval to be an essential internal control in safeguarding relief association assets. As a result, they failed to establish procedures to formally define the benefits and related criteria for the benefits offered to members.

Effect: The relief association's failure to formally define discretionary benefits prevents the membership from being aware of the types and amounts of benefits offered to its membership. The absence of formal approval increases the risk of unauthorized expenditures and could also lead to benefits not being applied equally to all members of the relief association.

Recommendation: We recommend relief association officials formally define and document the criteria of the discretionary benefits being offered to its membership. The formal approval of benefits and related criteria should be documented in the bylaws, a policy statement, or in the official meeting minutes, and should be maintained for an indefinite period of time so as to afford the membership of the relief association with a formal document defining the benefits offered and the criteria to be met before receiving the benefit. Furthermore, all approved discretionary benefits should be in accordance with provisions of Act 118. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

MAHONING VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDING AND RECOMMENDATION (Continued)

Finding – (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.

MAHONING VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2011

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	\$ 8,616
Total Benefit Services	<u>\$ 8,616</u>
Fire Services:	
Equipment purchased	\$ 138,730
Equipment maintenance	8,981
Training expenses	1,045
Fire prevention materials	1,941
Total Fire Services	<u>\$ 150,697</u>
Administrative Services:	
Officer compensation	\$ 450
Other administrative expenses	352
Total Administrative Services	<u>\$ 802</u>

MAHONING VALLEY VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Mahoning Valley Volunteer Firefighters' Relief Association Governing Body:

Mr. Bryan Pollock, President

Mr. Frank Mase, Vice President

Ms. Stacy Michalik, Secretary

Ms. Cathy Smith, Treasurer

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

Ms. Natalie D. Haggerty, Secretary
Mahoning Township

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.