

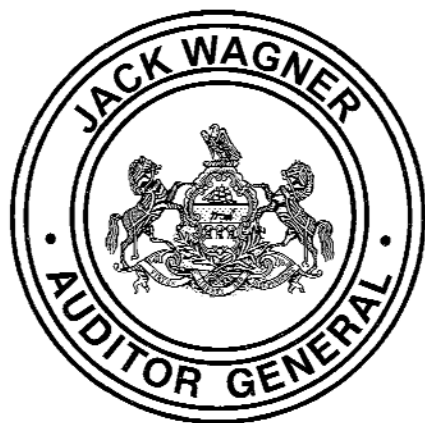
MENOHER HEIGHTS VOLUNTEER FIRE DEPARTMENT RELIEF ASSOCIATION

CAMBRIA COUNTY

COMPLIANCE AUDIT REPORT

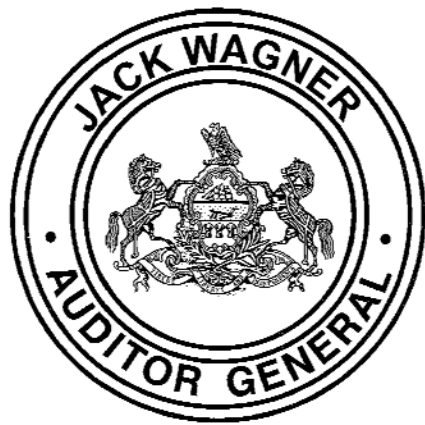
FOR THE PERIOD

JANUARY 1, 2007 TO DECEMBER 14, 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 Menoher Heights Volunteer Fire Department Relief Association, herein referred to as Menoher Heights Volunteer Firefighters' Relief Association, was 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 Menoher Heights Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2007</u>	<u>2008</u>
Upper Yoder Township	Cambria	\$16,526	\$17,014

However, as of December 14, 2010, the Menoher Heights Volunteer Firefighters' Relief Association dissolved its organization. As such, the relief association did not receive state aid allocations in 2009 and 2010, and will not receive any further allocations. (See Accompanying Expenditure Information section of this report.)

The volunteer firefighters' relief association and the affiliated fire service organization were separate, legal entities. The Menoher Heights Volunteer Firefighters' Relief Association was affiliated with the Menoher Heights Volunteer Fire Department, which dissolved on December 14, 2010 as well.

Ms. Tabitha Livingston, Treasurer
MENOHER HEIGHTS VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Cambria County

We have conducted a compliance audit of the Menoher Heights 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 14, 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 finding 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 Menoher Heights 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 Menoher Heights Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Menoher Heights Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 14, 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, 2007 to December 14, 2010, found the Menoher Heights Volunteer Firefighters' Relief Association took appropriate corrective action to address the finding contained in our prior audit report but did not, in all significant respects, receive and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the findings listed below and discussed later in this report. The results of our tests also indicated the Menoher Heights Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 14, 2010, the Menoher Heights Volunteer Firefighters' Relief Association dissolved and \$5,787 of remaining monetary assets were transferred to the Upper Yoder Volunteer Firefighters' Relief Association. (See Accompanying Expenditure Information section of this report.)

Finding No. 1 – Undocumented Expenditure

Finding No. 2 – Failure to Comply With Terms of Loan Agreement

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

December 22, 2010

JACK WAGNER
Auditor General

MENOHER HEIGHTS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Inadequate Financial Record-Keeping System

By maintaining a financial record-keeping system, which meets the minimum requirements of this department.

MENOHER HEIGHTS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditure

Condition: The relief association was unable to provide adequate supporting documentation for a \$1,048 expenditure to an auto parts store on December 26, 2007.

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: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation is maintained for all expenditures.

Effect: Lack of supporting documentation, such as an invoice, made it impossible to determine if the expenditure was 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. However, due to the dissolution of Menoher Heights Volunteer Firefighters' Relief Association and its affiliated fire department, Menoher Heights Volunteer Fire Department, reimbursement of these funds cannot be pursued.

Management's Response: Menoher Heights Volunteer Firefighters' Relief Association management agreed with the finding as presented at the audit exit conference.

Recommendation: Due to the dissolution of Menoher Heights Volunteer Firefighters' Relief Association and the transfer of its monetary assets to Upper Yoder Volunteer Firefighters' Relief Association, we recommend that Upper Yoder Volunteer Firefighters' Relief Association ensure that it maintains supporting documentation for all expenditures.

MENOHER HEIGHTS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure to Comply With Terms of Loan Agreement

Condition: On January 23, 2008, the relief association made a loan to the Menoher Heights Volunteer Fire Department, in the amount of \$11,500, with a term of 36 months and 3% interest rate; however, the relief association did not receive any loan payments.

Criteria: The terms of the loan agreement state that payments from the fire department of \$329 were due on a monthly basis to the relief association, starting on March 25, 2008, for a total amount due of \$11,844 and the last payment due on February 25, 2010.

Cause: The Menoher Heights Volunteer Fire Department failed to make loan payments due to financial problems and dissolved in December 2009. Fire department owned equipment used as collateral to secure the loan was not transferred to the relief association; the fire department sold the equipment and used the proceeds to pay the Internal Revenue Service.

Effect: As a result of the relief association not receiving the scheduled loan payments, the volunteer firefighters' relief association suffered a total loss of the funds invested. However, due to the dissolution of Menoher Heights Volunteer Firefighters' Relief Association and its affiliated fire department, Menoher Heights Volunteer Fire Department, reimbursement of these funds cannot be pursued.

Management's Response: Menoher Heights Volunteer Firefighters' Relief Association management agreed with the finding as presented at the audit exit conference.

Recommendation: Due to the dissolution of Menoher Heights Volunteer Firefighters' Relief Association and the transfer of its monetary assets to Upper Yoder Volunteer Firefighters' Relief Association, we are making this recommendation to the Upper Yoder Volunteer Firefighters' Relief Association. We recommend that Upper Yoder Volunteer Firefighters' Relief Association ensure that all loan payments are received in accordance with all loan agreements.

MENOHER HEIGHTS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 14, 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	\$ 3,132
Relief benefits	30
Tokens of sympathy and goodwill	122
Total Benefit Services	\$ 3,284
Fire Services:	
Equipment purchased	\$ 29,227
Equipment maintenance	4,589
Training expenses	5,186
Total Fire Services	\$ 39,002
Administrative Services:	
Miscellaneous administrative expenses	\$ 106
Total Administrative Services	\$ 106
Total Investments Purchased	\$ 11,500

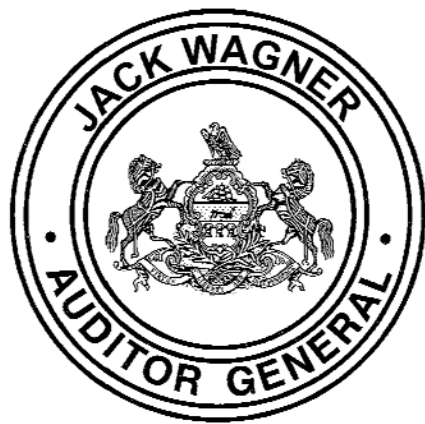
MENOHER HEIGHTS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
ACCOMPANYING EXPENDITURE INFORMATION
FOR THE PERIOD JANUARY 1, 2007 TO DECEMBER 14, 2010

USES OF FUNDS – (Continued):

Other Expenditures:	
Transfer of monetary assets *	\$ 5,787
Undocumented expenditure	<u> 1,048</u>
Total Other Expenditures	<u>\$ 6,835</u>

* Transfer of Monetary Assets

During 2009, the membership of the Menoher Heights Volunteer Firefighters' Relief Association voted to approve the dissolution of their relief association and the subsequent transfer of assets to the Upper Yoder Volunteer Firefighters' Relief Association. Effective December 14, 2010, the Menoher Heights Volunteer Firefighters' Relief Association completed the process of dissolution by transferring the remaining monetary assets to Upper Yoder Volunteer Firefighters' Relief Association.



MENOHER HEIGHTS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Menoher Heights Volunteer Firefighters' Relief Association Governing Body:

Ms. Tabitha Livingston, Treasurer

Upper Yoder Volunteer Firefighters' Relief Association Governing Body:

Mr. John D. Reitz, President

Mr. Jeffrey Berkebile, Vice President

Mr. Charles W. Snyder, Secretary

Mr. Frank Sojak, Treasurer

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

Ms. Mary Kay Maher, Secretary
Upper Yoder 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.