

COMPLIANCE AUDIT

Sharpsburg Fireman's Relief Association of Sharpsburg, Allegheny County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

March 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Dennis Lane, President
Sharpsburg Fireman's Relief Association of Sharpsburg
Allegheny County, Pennsylvania

We have conducted a compliance audit of the Sharpsburg Fireman's Relief Association of Sharpsburg, Allegheny County, Pennsylvania (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, 2012 to December 31, 2014.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding contained in our prior audit report.
2. To determine if the relief association received state aid 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.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the 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. Relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, for the period January 1, 2012 to December 31, 2014:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- The relief association, in all significant respects, received state aid 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.

Finding – Inadequate Signatory Authority For The Disbursement Of Funds

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with the management of the relief association and, where appropriate, their response has been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

March 21, 2016

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 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 relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Sharpsburg Borough	Allegheny	\$14,778	\$16,626	\$15,809

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

Sharpsburg Volunteer Fire Department Inc.

SHARPSBURG FIREMAN'S RELIEF ASSOCIATION OF SHARPSBURG, ALLEGHENY
COUNTY, PENNSYLVANIA
STATUS OF PRIOR AUDIT FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Insufficient Surety (Fidelity) Bond Coverage

By increasing the Surety (Fidelity) bond coverage to an amount greater than the balance of the relief association's cash assets.

SHARPSBURG FIREMAN'S RELIEF ASSOCIATION OF SHARPSBURG, ALLEGHENY
COUNTY, PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified two checks out of 65 checks, and five additional checks subsequent to the audit period, drawn on the relief association's checking account that contained the signatures of two officers. However, neither of these two officers was the disbursing officer even though two signatures, one of whom shall be the disbursing officer, are required by Act 118 and the relief association bylaws.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) states, in part:

The bylaws shall require that the signatures of at least two officers, one of whom shall be the disbursing officer, shall be required to bind the association by formal contract or to issue a negotiable instrument.

In addition, Section 1 and Section 2 of Article XII Miscellaneous of the relief association's bylaws states:

Section 1: The signature of at least two (2) officers, one of whom shall be the Treasurer, shall be required for the issuance of Relief Association checks, withdrawal from the Relief Association Saving Account, the redemption of any Relief Association investment, or on any other negotiable instrument issued by the Relief Association.

Section 2: The Association shall maintain an Officer's Bond of the office of the Treasurer. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the Association, at any one time during the fiscal year.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two relief association officials, one of whom shall be the disbursing officer, are included on all negotiable instruments. Adequate internal control procedures require that checks be signed only after the propriety of the expenditure has been determined and the payee, date, and amount to be paid has been confirmed. Additionally, responsible relief association officers should compare this information with supporting documentation, such as invoices, contracts, etc., prior to approving the checks.

Cause: Relief association officials neglected to establish adequate internal control procedures that require the signatures of at least two officers, one of whom shall be the disbursing officer, on all negotiable instruments.

SHARPSBURG FIREMAN'S RELIEF ASSOCIATION OF SHARPSBURG, ALLEGHENY
COUNTY, PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: As a result of the relief association officers issuing checks with two signatures, neither of which was the disbursing officer, assets were placed at greater risk as expenditures were being made without the surety bond coverage of the disbursing officer.

Recommendation: We recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two officers, one of whom shall be the disbursing officer, are included on all relief association negotiable instruments as defined 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

SHARPSBURG FIREMAN'S RELIEF ASSOCIATION OF SHARPSBURG, ALLEGHENY
COUNTY, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2014

Cash Balance:	\$	34,994
Expenditures:		
Benefit Services:		
Insurance premiums	\$	23,884
Tokens of sympathy and goodwill		62
Total Benefit Services	\$	<u>23,946</u>
Fire Services:		
Equipment purchased	\$	18,439
Equipment maintenance		4,756
Training expenses		3,142
Fire prevention materials		2,973
Total Fire Services	\$	<u>29,310</u>
Administrative Services:		
Officer compensation	\$	1,500
Other administrative expenses		500
Bond premiums		250
Total Administrative Services	\$	<u>2,250</u>

SHARPSBURG FIREMAN'S RELIEF ASSOCIATION OF SHARPSBURG, ALLEGHENY
COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Sharpsburg Fireman's Relief Association of Sharpsburg, Allegheny County, PENNSYLVANIA
Governing Body:

Mr. Dennis Lane
President

Mr. Anthony Karpinski
Vice President

Ms. Taylor Pecze
Secretary

Ms. Kathleen Zdobinski
Treasurer

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

Ms. Janice M. Barbus
Secretary
Sharpsburg Borough

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.