

# COMPLIANCE AUDIT

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## Berrysburg and Community Fire Company, Relief Association Dauphin County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

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September 2017



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Raymond Straub, President  
Berrysburg And Community Fire Company,  
Relief Association  
Dauphin County

We have conducted a compliance audit of the Berrysburg And Community Fire Company, Relief Association (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, 2014 to December 31, 2016.

The objective of the audit was to determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds. Our audit was limited to the areas related to the objective identified above and was not required to be and was not conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

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 objective. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain independent confirmations of the cash balance and the investment balance directly from the financial institutions. Therefore, while the relief association provided copies of bank and investment statements that indicated that, as of December 31, 2016, the relief association had a cash balance of \$12,773 and an investment balance with a fair value of \$8,323, we were not able to verify those cash and investment balances.

We were also not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided copies of bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

Based on our audit procedures, we conclude that, except for the effects, if any, of the matters described in the preceding paragraphs, for the period January 1, 2014 to December 31, 2016, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Inappropriate Presigning Of Blank Checks

Finding No. 2 – Inadequate Relief Association Bylaws (Discretionary Benefits)

Finding No. 3 – Inadequate Minutes Of Meetings

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 responses have 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.

September 18, 2017



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 volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct 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 relief associations 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 that is or are recognized as providing the service to the municipality.

**BACKGROUND – (Continued)**

The relief association was allocated state aid from the municipalities:

<u>Municipality</u>	<u>County</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Berrysburg Borough	Dauphin	\$1,802	\$1,734	\$1,728
Mifflin Township	Dauphin	\$5,089	\$4,937	\$4,938

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:

Berrysburg and Community Fire Company

BERRYSBURG AND COMMUNITY FIRE COMPANY, RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Inappropriate Presigning Of Blank Checks**

Condition: A review of the relief association’s checkbook, at the time of the audit engagement, revealed that two blank checks were presigned by two of the two relief association officers who are authorized to sign checks. The presigning of blank checks negates the relief association’s internal control over the disbursement process.

Criteria: Prudent business practice dictates that the relief association has sufficient internal control procedures in place to prohibit the presigning of blank checks. 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 signing the checks.

Cause: Relief association officials indicated that they were aware of the necessity for two signatures, but did not realize that applying the signatures prior to evaluating the propriety of the expenditure negated the relief association’s internal controls over the disbursement process.

Effect: As a result of the two authorized relief association officers presigning the blank checks, assets were placed at greater risk of misappropriation since the officers who presigned the blank checks did not have the opportunity to verify the propriety of the expenditures.

Recommendation: We recommend that the practice of presigning blank checks be immediately discontinued. We also recommend that all of the relief association officers ensure that checks are signed and co-signed only after the propriety of the expenditures have been determined and the payees, dates, and amounts to be paid have been confirmed. 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.

**Finding No. 2 – Inadequate Relief Association Bylaws (Discretionary Benefits)**

Condition: The existing bylaws of the relief association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not address the following:

- The requirement for the signatures of at least two (2) officers, one of whom shall be the disbursing officer, required to bind the association by formal contract or to issue a negotiable instrument.
- The actual times and dates when meetings will be held.

BERRYSBURG AND COMMUNITY FIRE COMPANY, RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

In addition, the relief association did not formally define discretionary benefits that were being offered to its members. During the current audit period, the relief association paid \$320 in death benefits to a deceased member's requested charity. Although these expenditures were authorized by Act 118, the types, amounts, and criteria to be met before receiving the benefits were not described in a formal policy approved by the association membership. In addition, the death benefit should go directly to the beneficiary of the member and then the beneficiary can determine who to donate the monies too.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(2 and 3) states, the relief association's bylaws should include the following provisions:

- (2) State the notice requirements and procedure to be followed in calling meetings, as well as quorum requirements for regular and special meetings of the membership and for regular and special meetings of the body which governs the operations of the association between membership meetings, and shall designate that body, whether it be a board of directors, trustees or any similar body such as an executive committee. Unless otherwise provided for in the bylaws, powers and duties of officers, directors and trustees shall be those which normally pertain to such positions in nonprofit corporations.
- (3) 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, 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 beneficial 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 in a death benefit fund. (Emphasis added.)

Furthermore, prudent business practice dictates that when a relief association offers death benefits, or any other type of discretionary benefit provided by Act 118, it should establish a precedent for those benefits being offered. Such a precedent should be documented in the bylaws, a formal association policy, or in the official meeting minutes. The formal approval is necessary to clarify the types and amounts of benefits offered to its membership as well.

BERRYSBURG AND COMMUNITY FIRE COMPANY, RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization. In addition, 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 association.

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures 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.

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

**Finding No. 3 – Inadequate Minutes Of Meetings**

Condition: The relief association failed to maintain detailed minutes of meetings as required by Act 118. Specifically, the relief association's minutes were commingled with the affiliated fire company minutes and did not address the following:

- All of the financial-related transactions that occurred during the audit period.
- Approvals of all expenditures by the relief association's membership.
- Signature of the secretary as designated relief association official.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

... must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

BERRYSBURG AND COMMUNITY FIRE COMPANY, RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

In addition, the relief association's bylaws at Article I, Section (a) states:

The stated meetings of this Association shall be held immediately following the regular meeting of the BERRYSBURG AND COMMUNITY FIRE CO.

Furthermore, the relief association's bylaws at Article III, Section (b) states, in part:

It shall be the duty of the Secretary...and keep a complete record of the proceedings of all meetings of the Association;

Cause: Relief association officials indicated that they were unaware that maintaining detailed minutes of meetings was required by Act 118.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We recommend that the relief association officials maintain separate detailed minutes of meetings for relief association business, evidencing the discussion and approval of all financial-related business conducted by 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.

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

BERRYSBURG AND COMMUNITY FIRE COMPANY, RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2016

Cash	\$ 12,773
Fair Value of Investments	<u>8,323</u>
Total Cash and Investments	<u>\$ 21,096</u>

BERRYSBURG AND COMMUNITY FIRE COMPANY, RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
SUMMARY OF EXPENDITURES  
FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:

Insurance premiums	\$ 2,532
Death benefits	<u>320</u>
Total Benefit Services	<u>\$ 2,852</u>

Fire Services:

Equipment purchased	<u>\$ 12,283</u>
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Administrative Services:

Bond premiums	<u>\$ 200</u>
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Total Expenditures	<u><u>\$ 15,335</u></u>
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BERRYSBURG AND COMMUNITY FIRE COMPANY, RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Berrysburg And Community Fire Company, Relief Association Governing Body:

**Mr. Raymond Straub**  
President

**Mr. Craig Peters**  
Treasurer

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

**Ms. Diane Kennedy**  
Secretary  
Berrysburg Borough

**Ms. Wanda Hockenberry**  
Secretary  
Mifflin Township

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).