

# COMPLIANCE AUDIT

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Firemen's Relief Association Within the  
Confines of Perdix Fire Company No. 1,  
Already Incorporated, Township of Penn,  
Perry County, Pennsylvania  
For the Period  
January 1, 2012 to December 31, 2015

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January 2017



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Mr. Shade Reidlinger, President  
Firemen's Relief Association Within The  
Confines Of Perdix Fire Company No. 1,  
Already Incorporated, Township Of Penn,  
Perry County, Pennsylvania

We have conducted a compliance audit of the Firemen's Relief Association Within The Confines Of Perdix Fire Company No. 1, Already Incorporated, Township Of Penn, Perry 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, 2015.

The objective of the audit was to determine if the relief association complied with the requirements in 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.

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.

Based on our audit procedures, we conclude that, for the period January 1, 2012 to December 31, 2015, the relief association, in all significant respects, complied with the requirements in 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 – Failure To Maintain Surety (Fidelity) Bond Coverage

Finding No. 2 – 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 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.

January 23, 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. The relief association's bylaws define the specific operational procedures by which the 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 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 that is or are recognized as providing the service to the municipality.

## **BACKGROUND – (Continued)**

During the current audit period, the relief association did not receive an allocation of state aid from any funding municipalities. Municipalities have sole discretion to distribute their annual allocation of state aid received to any relief association providing fire service to the municipality.

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:

Perdix Fire Co. No. 1

FIREMEN'S RELIEF ASSOCIATION WITHIN THE CONFINES OF PERDIX FIRE  
COMPANY NO. 1, ALREADY INCORPORATED, TOWNSHIP OF PENN,  
PERRY COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Maintain Surety (Fidelity) Bond Coverage**

Condition: The relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. The relief association's Surety (Fidelity) bond coverage expired on May 13, 2015. As of December 31, 2015, the relief association's cash assets totaled \$21,286.

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 indicated that they were unaware of the Act 118 provision requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer.

Effect: As a result of the authorized disbursing officer of the relief association not being bonded, the relief association's cash assets were not adequately safeguarded.

Recommendation: We recommend that the relief association officials obtain Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer in an amount greater than the relief association's maximum cash balance, as required 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 have already taken action to comply with the recommendation by contacting their insurance agent to obtain new Surety (Fidelity) bond coverage.

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

FIREMEN'S RELIEF ASSOCIATION WITHIN THE CONFINES OF PERDIX FIRE  
COMPANY NO. 1, ALREADY INCORPORATED, TOWNSHIP OF PENN,  
PERRY COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No.2 – Inadequate Signatory Authority For The Disbursement Of Funds**

Condition: During the current audit engagement, we identified that all of the checks (six) drawn on the relief association's checking account only contained the signature of one officer, even though two signatures are required by Act 118 and the relief association bylaws. Issuing checks with the signature of only one officer negates the relief association's internal control over the disbursement process.

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, Article VI, Section 3, of the relief association's bylaws states:

“On all accounts of the Association, there shall be signatures of no less than two officers, one which should be the Treasurer.”

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 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 on all negotiable instruments.

Effect: As a result of the relief association officer issuing checks with only one signature, assets were placed at greater risk as expenditures were being made without a second relief association officer having the opportunity to verify the propriety of the expenditures. The application of the second signature, after evaluating the propriety of the expenditure, reduces the risk of misappropriation and the risk of errors occurring and going undetected.

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 treasurer, 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.



FIREMEN'S RELIEF ASSOCIATION WITHIN THE CONFINES OF PERDIX FIRE  
COMPANY NO. 1, ALREADY INCORPORATED, TOWNSHIP OF PENN,  
PERRY COUNTY, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No.2 – (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.

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

FIREMEN'S RELIEF ASSOCIATION WITHIN THE CONFINES OF PERDIX FIRE  
COMPANY NO. 1, ALREADY INCORPORATED, TOWNSHIP OF PENN,  
PERRY COUNTY, PENNSYLVANIA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH BALANCE  
AS OF DECEMBER 31, 2015

Cash	<u>\$ 21,286</u>
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FIREMEN'S RELIEF ASSOCIATION WITHIN THE CONFINES OF PERDIX FIRE  
 COMPANY NO. 1, ALREADY INCORPORATED, TOWNSHIP OF PENN,  
 PERRY COUNTY, PENNSYLVANIA  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:	
Insurance premiums	\$ 6,227
Fire Services:	
Equipment purchased	\$ 9,210
Equipment maintenance	1,419
Training expenses	200
Total Fire Services	\$ 10,829
Total Expenditures	\$ 17,056

FIREMEN'S RELIEF ASSOCIATION WITHIN THE CONFINES OF PERDIX FIRE  
COMPANY NO. 1, ALREADY INCORPORATED, TOWNSHIP OF PENN,  
PERRY COUNTY, PENNSYLVANIA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Firemen's Relief Association Within The Confines Of Perdix Fire Company No. 1, Already  
Incorporated, Township Of Penn, Perry County, Pennsylvania Governing Body:

**Mr. Shade Reidlinger**  
President

**Ms. Jodi Rissinger**  
Secretary

**Ms. Holli Reidlinger**  
Treasurer

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