

COMPLIANCE AUDIT

The Potts Grove Firemen's Relief Association of, Pennsylvania Northumberland County For the Period January 1, 2016 to December 31, 2017

June 2018



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Eric Satteson, President
The Potts Grove Firemen's Relief
Association of, Pennsylvania
Northumberland County

We have conducted a compliance audit of The Potts Grove Firemen's Relief Association of, 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, 2016 to December 31, 2017.

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 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 objectives 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 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, 2016 to December 31, 2017:


- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- 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 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.

May 31, 2018


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 following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2016</u>	<u>2017</u>
East Chillisquaque Township	Northumberland	\$4,092	\$3,747
West Chillisquaque Township	Northumberland	\$4,574	\$3,765

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:

Potts Grove Fire Company

THE POTTS GROVE FIREMEN'S RELIEF ASSOCIATION OF, PENNSYLVANIA
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

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

- Failure To Maintain A Complete And Accurate Equipment Roster

By maintaining a cumulative inventory roster of all relief association owned equipment.

THE POTTS GROVE FIREMEN'S RELIEF ASSOCIATION OF, PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – Inadequate Signatory Authority For The Disbursement Of Funds

Condition: During the current audit engagement, we identified 1 check out of the 18 checks drawn on the relief association's checking account that only contained the signature of one officer. Additionally, the remaining 17 checks contained the signatures of two officers, however, one of the signatures was not the required signature of the disbursing officer. Issuing checks with the signature of only one officer and without the signature of the disbursing officer negates the relief association's internal control over the disbursement process and fails to meet the requirements of 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, Article III Section 4 of the relief association's bylaws states:

“The Treasurer will not disburse any money, issue checks,.....without the signature of at least one other Association officer.”

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, one of whom shall be the disbursing officer, on all negotiable instruments.

Effect: As a result of the relief association officer issuing checks without the signature of the disbursing officer and one 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.

THE POTTS GROVE FIREMEN'S RELIEF ASSOCIATION OF, PENNSYLVANIA
FINDING AND RECOMMENDATION

Finding – (Continued)

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.

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.

THE POTTS GROVE FIREMEN'S RELIEF ASSOCIATION OF, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2017

Cash	<u>\$ 24,243</u>
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THE POTTS GROVE FIREMEN'S RELIEF ASSOCIATION OF, PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2016 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	<u>\$ 5,966</u>
Fire Services:	
Equipment purchased	\$ 12,970
Equipment maintenance	1,223
Training expenses	<u>325</u>
Total Fire Services	<u>\$ 14,518</u>
Administrative Services:	
Other administrative expenses	<u>875</u>
Other Expenditures:	
Miscellaneous	<u>\$ 45</u>
Total Expenditures	<u><u>\$ 21,404</u></u>

THE POTTS GROVE FIREMEN'S RELIEF ASSOCIATION OF, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Potts Grove Firemen's Relief Association of, Pennsylvania Governing Body:

Mr. Eric Satteson
President

Mr. Brian Weldy
Vice President

Ms. Teresa Ireland
Secretary

Ms. Connie Stover
Treasurer

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

Ms. Michelle M. Bower
Secretary
East Chillisquaque Township

Ms. Cherie L. Boyer
Secretary
West Chillisquaque Township

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.