

# COMPLIANCE AUDIT

---

Third District Volunteer Fire  
Company Number 1, Firemen's  
Relief Association of Bristol  
Township, Pennsylvania  
Bucks County  
For the Period  
January 1, 2015 to December 31, 2016

---

November 2017



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Herbert Schoell, Jr., President  
Third District Volunteer Fire Company Number 1,  
Firemen's Relief Association of Bristol Township, Pennsylvania  
Bucks County

We have conducted a compliance audit of the Third District Volunteer Fire Company Number 1, Firemen's Relief Association of Bristol Township, 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, 2015 to December 31, 2016.

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.

We were not able to obtain independent confirmations of the cash balance and the investment balance directly from the financial institution. 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 \$50,857 and an investment balance with a fair value of \$52,335, we were not able to verify those cash and investment balances.

Based on our audit procedures, we conclude that, for the period January 1, 2015 to December 31, 2016:

- The relief association did not take appropriate corrective action to address the finding contained in our prior audit report, as detailed below and discussed in the Status of Prior Finding section of this report.
- Except for the effects, if any, of the matter described in the preceding paragraph, 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 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage

Finding No. 2 – Unauthorized Expenditure

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.

November 9, 2017



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background .....	1
Status of Prior Finding .....	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Insufficient Surety (Fidelity) Bond Coverage .....	4
Finding No. 2 – Unauthorized Expenditure .....	5
Supplementary Financial Information .....	7
Report Distribution List .....	9

## 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2015</u>	<u>2016</u>
Bristol Township	Bucks	\$69,020	\$68,635

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:

Third District Volunteer Fire Company

THIRD DISTRICT VOLUNTEER FIRE COMPANY NUMBER 1, FIREMEN'S RELIEF  
ASSOCIATION OF BRISTOL TOWNSHIP, PENNSYLVANIA  
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has not complied with the following prior audit finding. This finding is noted below and discussed in detail in the Findings and Recommendations section of this report:

- Insufficient Surety (Fidelity) Bond Coverage

We are concerned by the relief association's failure to correct this previously reported audit finding. The association management should strive to implement the recommendation and corrective action noted in this audit report.

THIRD DISTRICT VOLUNTEER FIRE COMPANY NUMBER 1, FIREMEN'S RELIEF  
ASSOCIATION OF BRISTOL TOWNSHIP, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Insufficient Surety  
(Fidelity) Bond Coverage**

Condition: As disclosed in the prior audit report, the relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association's authorized disbursing officer according to Act 118. A similar condition occurred during the current audit period. The relief association's Surety (Fidelity) bond coverage amount was \$85,000; however, during the current audit period, the relief association's cash assets reached a total of \$95,104. And even though, as of December 31, 2016, the relief association's cash assets totaled \$50,857 which is within the policy coverage amount, the bond coverage maintained during the entire period was not in accordance with Act 118 and the relief association's bylaws.

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 (Emphasis added).

In addition, the relief association's bylaws at Article IV, Section 4 states, in part:

The Association shall maintain an officers bond on the Treasurer. The bond shall be as great as the maximum balance in savings, checking, or investment funds of the Association at any time during the fiscal year...(Emphasis added.)

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to monitor the relief association's cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer was in compliance with Act 118 provisions.

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

THIRD DISTRICT VOLUNTEER FIRE COMPANY NUMBER 1, FIREMEN'S RELIEF  
ASSOCIATION OF BRISTOL TOWNSHIP, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We again recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by Act 118. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

**Finding No. 2 – Unauthorized Expenditure**

Condition: The relief association expended \$300 for CDL Preparation training during the current audit period that is not authorized by Act 118.

Criteria: Act 118 at 35 Pa.C.S. § 7416(f)(10) states:

The funds of any volunteer firefighters' relief association may be spent:

- (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.

Costs associated with CDL Preparation training do not qualify as an authorized volunteer firefighters' relief association expenditure; consequently, this disbursement is not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the expenditure for the CDL Preparation training was not authorized by Act 118.

THIRD DISTRICT VOLUNTEER FIRE COMPANY NUMBER 1, FIREMEN'S RELIEF  
ASSOCIATION OF BRISTOL TOWNSHIP, PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 118.

Recommendation: We recommend that the relief association be reimbursed \$300 for the unauthorized expenditure and that relief association officials become familiar with Act 118 at 35 Pa.C.S. § 7416(f) to aid them in determining the propriety of future expenditures. 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.

THIRD DISTRICT VOLUNTEER FIRE COMPANY NUMBER 1, FIREMEN'S RELIEF  
ASSOCIATION OF BRISTOL TOWNSHIP, PENNSYLVANIA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2016

Cash	\$ 50,857
Fair Value of Investments	<u>52,335</u>
Total Cash and Investments	<u>\$ 103,192</u>

THIRD DISTRICT VOLUNTEER FIRE COMPANY NUMBER 1, FIREMEN'S RELIEF  
ASSOCIATION OF BRISTOL TOWNSHIP, PENNSYLVANIA  
SUPPLEMENTARY FINANCIAL INFORMATION  
SUMMARY OF EXPENDITURES  
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 45,564
Tokens of sympathy and goodwill	950
Total Benefit Services	\$ 46,514
Fire Services:	
Equipment purchased	\$ 81,616
Equipment maintenance	16,524
Training expenses	1,783
Total Fire Services	\$ 99,923
Administrative Services:	
Other administrative expenses	\$ 7,740
Bond premiums	500
Total Administrative Services	\$ 8,240
Total Investments Purchased	\$ 52,100
Other Expenditures:	
Unauthorized expenditure	\$ 300
Total Expenditures	\$ 207,077

THIRD DISTRICT VOLUNTEER FIRE COMPANY NUMBER 1, FIREMEN'S RELIEF  
ASSOCIATION OF BRISTOL TOWNSHIP, PENNSYLVANIA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Third District Volunteer Fire Company Number 1, Firemen's Relief Association of Bristol  
Township, Pennsylvania Governing Body:

**Mr. Herbert Schoell, Jr.**  
President

**Mr. DeShawn Newkirk**  
Vice President

**Ms. Trudy Margavich**  
Recording Secretary

**Mr. Howard E. McGoldrick**  
Treasurer

**Mr. Gene Hathaway**  
Finical Secretary

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

**Ms. Mary Kate Murphy**  
Secretary  
Bristol 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).