



**ALLISON NO. 1 VOLUNTEER FIRE DEPARTMENT  
RELIEF ASSOCIATION**

**FAYETTE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009 TO DECEMBER 31, 2012**

**RELEASE JANUARY 2014**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**







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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Mr. Charles Churby, President  
ALLISON NO. 1 VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Fayette County

We have conducted a compliance audit of the Allison No. 1 Volunteer Firefighters' 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, 2009 to December 31, 2012.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the volunteer firefighters' 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.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Allison No. 1 Volunteer Firefighters' 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. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Allison No. 1 Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Allison No. 1 Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2012, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objectives.

The results of our audit, for the period January 1, 2009 to December 31, 2012, found the Allison No. 1 Volunteer Firefighters' 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. In addition, the results of our audit found the Allison No. 1 Volunteer Firefighters' 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 findings listed below and discussed in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the Allison No. 1 Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$150 and an investment balance with a fair value of \$38,194.

Finding No. 1 – Noncompliance with prior Audit Recommendation –  
Failure to Maintain Surety (Fidelity) Bond Coverage

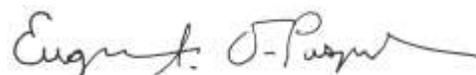
Finding No. 2 – Inappropriate Ownership of Funds

Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds

Finding No. 4 – Failure to Maintain Minutes of Meetings

Finding No. 5 – Failure to Maintain a Complete and Accurate Equipment Roster

The contents of this report were discussed with the management of the Allison No. 1 Volunteer Firefighters' Relief Association and, where appropriate, their response has been included in the report.



EUGENE A. DEPASQUALE  
Auditor General

November 12, 2013

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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 Allison No. 1 Volunteer Fire Department Relief Association, herein referred to as Allison No. 1 Volunteer Firefighters' 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. The Allison No. 1 Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Redstone Township	Fayette	\$13,946	\$15,697	*	*

BACKGROUND (Continued)

\*In 2011, Redstone Township ceased giving state aid to Allison No. 1 Volunteer Firefighters' Relief Association. The municipality has full discretion in distributing the state aid to relief associations of its choice.

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The Allison No. 1 Volunteer Firefighters' Relief Association is affiliated with the following fire service organization:

Allison No. 1 Volunteer Fire Department

ALLISON NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

NONCOMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The Allison No. 1 Volunteer Firefighters' 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:

- Noncompliance With Prior Audit Recommendation – Failure to Maintain Surety (Fidelity) Bond Coverage

Even though the relief association increased the Surety (Fidelity) bond coverage on June 5, 2009, to exceed the relief association's cash balance, the relief association let the Surety (Fidelity) bond coverage lapse, during the current audit period, on March 3, 2012. (See further disclosure in Finding No. 1 contained in this report).

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

ALLISON NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No.1 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain Surety (Fidelity) Bond Coverage

Condition: As cited in our prior audit report and the status of finding section of this report, the relief association failed to maintain Surety (Fidelity) bond coverage on its authorized disbursing officer, as required by Act 118. As of March 3, 2012, the relief association allowed the Surety (Fidelity) bond coverage to lapse.

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: Even though notified of this condition during our prior audit, relief association officials, again, neglected Act 118 provisions requiring the maintenance of Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer.

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

Recommendation: We, again, recommend that the relief association officials maintain 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 will take action to comply with the recommendation.

ALLISON NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Inappropriate Ownership of Funds

Condition: On August 19, 2011, a certificate of deposit owned by the relief association was liquidated and the proceeds totaling \$17,569 were deposited into a bank account owned by the Allison No. 1 Volunteer Fire Department, not the relief association.

Criteria: Act 118 at 35 Pa.C.S. § 7416(d) states, in part:

No investment shall be acquired, encumbered or sold except pursuant to resolution duly enacted by the governing body of the association.

Cause: Fire department officials liquidated a certificate of deposit owned by the relief association and deposited the proceeds into a fire department bank account without the approval of the relief association's membership. Fire Department officials were not sure as to which organization owned the certificate of deposit, but decided to liquidate the certificate and deposit the proceeds into the fire department's bank account with the justification that the funds were to be used for authorized relief association expenditures.

Effect: As a result of this inappropriate ownership of funds, the relief association was unable to use these funds for the general operating expenses and benefits of the relief association or for investment purposes.

However, as a result of our audit, the relief association was reimbursed \$8,000, on November 14, 2011, by the affiliated fire department. In addition, the relief association entered into a formal written agreement with the fire department on December 11, 2011, in which the fire department is to reimburse the relief association the remaining balance amounting to \$9,569 plus two percent interest over a three year period.

Recommendation: We recommend that relief association officials seek to have the balance paid by the fire company as stated in the promissory note entered into between the parties on December 11, 2011. 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.

ALLISON NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Inadequate Signatory Authority for the Disbursement of Funds

Condition: During the current audit engagement, we identified 21 checks out of 22 drawn on the relief association's checking account that contained two signatures as required by Act 118 and the relief association's bylaws. However, one of the signatures was the relief association's treasurer, but the second signature was the fire department's treasurer who was not a relief association officer. 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 VIII Section 1, of the relief association's bylaws states:

The signatures of at least two officers, one of whom shall be the treasurer, shall be required for the issuance of the relief association checks, withdrawal from the association savings account, redemption of any relief association investment, or on any other negotiable instrument issued by the association.

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. Good internal control procedures require that checks be signed only after the propriety of the expenditures 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, contract, etc., prior to approving the checks.

Cause: Relief association officials failed to establish adequate internal control procedures which require the signatures of at least two relief association officers on all negotiable instruments.

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

ALLISON NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – (Continued)

Recommendation: We recommend the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two authorizing relief association 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.

ALLISON NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

Finding No. 4 – Failure to Maintain Minutes of Meetings

Condition: The relief association failed to maintain minutes of meetings as required by Act 118. While the relief association's bylaws call for monthly meetings, the relief association only maintained minutes for 28 out of 48 months of the audit period.

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.

Article II Section 1, of the relief association's bylaws states:

Regular meetings of this association shall be held on the second Sunday of each month immediately preceding the regular monthly meeting of the Allison No. 1 Volunteer Fire Department.

Cause: Relief association officials were unable to locate minutes for 20 meetings and could not confirm if these meetings actually took place or if minutes were maintained.

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

Recommendation: We recommend relief association officials maintain a permanent record of all relief association meetings as required by Act 118. The minutes should include an adequate record 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.

ALLISON NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 5 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials failed to maintain a complete and accurate roster of equipment owned by the relief association. Specifically, \$23,244 of equipment purchased during 2011, were not included on the relief association's equipment roster. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis, nor whether such inventory accounted for all of the relief association's equipment.

Criteria: Prudent business practice dictates the relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's equipment. A cumulative equipment roster of all relief association equipment should include the following:

- Types of equipment purchased;
- Dates of purchase;
- Unit costs;
- Names of suppliers;
- Serial numbers, if applicable;
- Current locations of items;
- Final dispositions of sold or damaged equipment; and
- Evidence of the performance and results of an annual physical inventory.

Cause: Relief association officials failed to establish adequate internal control procedures over equipment requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We recommend the relief association officials maintain a cumulative equipment roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual physical inventory of all operable equipment and that the completion of the inventory be sufficiently documented. 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.

ALLISON NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2012

Act 118 at 35 Pa.C.S. § 7412 states: a volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The organization may contain within its membership the members of one or more fire companies and may serve secondary purposes, as set forth in this subchapter, but only if adequate provisions have been first made to serve the primary purpose.

Act 118 at 35 Pa.C.S. § 7416 authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 6,570
Death benefits	500
Total Benefit Services	\$ 7,070
Fire Services:	
Equipment purchased	\$ 58,322
Equipment maintenance	10,621
Training expenses	1,558
Total Fire Services	\$ 70,501
Administrative Services:	
Other administrative expenses	\$ 120
Total Administrative Services	\$ 120

ALLISON NO. 1 VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Allison No. 1 Volunteer Firefighters' Relief Association Governing Body:

Mr. Charles Churby, President

Mr. Patrick Truikio, Vice President

Ms. Diane Torok, Secretary

Mr. Thomas J. Zimmerlink, Treasurer

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

Mr. George A. Matis, Secretary  
Redstone Township

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).