

# COMPLIANCE AUDIT

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## Gettysburg Fire Department Firemen's Relief Association

Adams County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2017

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April 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Kenneth C. Kime, Jr., President  
Gettysburg Fire Department Firemen's  
Relief Association  
Adams County

We have conducted a compliance audit of the Gettysburg Fire Department Firemen's 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, 2015 to December 31, 2017.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the findings 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, 2015 to December 31, 2017:

- The relief association took appropriate corrective action to address the findings 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 findings listed below and discussed later in this report.

Finding No. 1 – Failure To Maintain A Complete And Accurate Equipment Roster

Finding No. 2 – Inadequate Authority For The Investment Of Funds

Finding No. 3 – Inadequate Investment Records

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.

February 28, 2019



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>2015</u>	<u>2016</u>	<u>2017</u>
Gettysburg Borough	Adams	\$43,883	\$43,553	\$39,312
Highland Township	Adams	\$ 2,514	\$ 2,502	\$ 2,782
Mount Joy Township	Adams	\$ 7,702	\$ 7,266	\$ 7,261
Mount Pleasant Township	Adams	\$ 3,515	\$ 3,496	\$ 3,510
Straban Township	Adams	\$30,492	\$30,264	\$29,137

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:

Gettysburg Fire Department

GETTYSBURG FIRE DEPARTMENT FIREMEN'S RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has complied with the prior audit findings and recommendations, as follows:

- Undocumented Expenditures

By providing adequate documentation to evidence the propriety of the undocumented expenditures that were made in the prior audit period.

- Inadequate Financial Record-Keeping System

By establishing and maintaining a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations.

- Insufficient Surety (Fidelity) Bond Coverage

By decreasing the relief association's cash assets to an amount below the maximum protection of the Surety (Fidelity) bond coverage.

GETTYSBURG FIRE DEPARTMENT FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Maintain A Complete And Accurate Equipment Roster**

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit period, this listing was incomplete and did not accurately identify all of the equipment owned by the relief association. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

Criteria: Prudent business practice dictates that 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 all of 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
- Evidence of the performance and results of an annual physical inventory

Cause: Relief association officials failed to establish adequate internal control procedures over equipment by 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 that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. 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.



GETTYSBURG FIRE DEPARTMENT FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (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.

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

Condition: The approval of only one relief association officer was used to make investment decisions for relief association investment transactions although the approval of at least two relief association officers are required. Specifically, the relief association purchased 4 Class B shares from Pulse InfoFrame Inc. in the total amount of \$55,467 on October 26, 2017; however, these shares were purchased with the signature of only one relief association officer and there was no evidence documenting approval of the transaction in the relief association's meeting minutes. In addition, it is not clear if the relief association has developed a formal investment policy to ensure that all investment transactions are made in accordance with statutory legislation commonly known as the Fiduciary Investment Act.

Criteria: Section 7415(c)(3) of Act 118 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, the relief association's bylaws at Article VII, Section 1 states:

The signatures of two of the following officers, one of whom shall be the Treasurer, shall be required for the issuance of the Relief Association checks, withdrawal from the Association savings, the redemption of any Relief Association investment or on any other negotiable instrument issued in the name of the Association. The officers that can sign negotiable instruments are the President, Vice-President, Recording Secretary, Treasurer, and Membership Secretary.

Furthermore, the relief association's bylaws at Article VI, Section 1 states, in part:

All purchases and sales of investments must be made in a prudent manner to insure maximum investment return and authorized by a majority vote at an Association meeting. The transactions must be duly recorded in the minutes.

GETTYSBURG FIRE DEPARTMENT FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

The relief association's governing body has ultimate authority for financial management of association funds and has an obligation to review investments on a periodic basis. Prudent business practice dictates that all purchases and sales of investments should be presented at an association meeting for membership discussion and approval. Routine discussions of relief association investment purchases and sales should be documented in the official meeting minutes.

Cause: Relief association officials failed to implement sufficient internal controls to ensure prudent administration of relief association monies. The relief association officials did not monitor to ensure the Act 118 provision requiring the approval of at least two officers for the disbursement of funds or to issue negotiable instruments was followed; and were unaware of the relief association's ineffective controls over the administration of relief association assets.

Effect: As a result of the relief association making investment purchases and sales without adequate approval, relief association assets were placed at greater risk of misappropriation. The lack of an effective internal control system increases the likelihood that errors and irregularities could occur and go undetected, and increases the likelihood of fraud.

Recommendation: We recommend that the relief association officials adopt the following procedures related to relief association investments:

- Establish a sound investment policy with well-defined objectives and goals.
- Present all investment purchases and sales at an association meeting for membership discussion and approval.
- Document all investment purchases and sales in the official meeting minutes.
- Require the signatures of at least two officers, one of whom shall be the disbursing officer, for all negotiable instruments.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: The relief association management provided the following response:

With respect to Finding No. 2, paperwork was sent to the Relief Association by our Investment Advisor concerning the investment transaction for purchase of the shares of Pulse Infoframe. On their paperwork, they had only requested the signature of one officer and unfortunately we did not pick up on that with the requirements. I can assure you that the officers of the relief association were aware of the transaction. We have since notified our Investment advisor to make certain that any future paperwork should have two signatures required for any transaction.

GETTYSBURG FIRE DEPARTMENT FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

In addition, the relief association officials did provide a copy of their investment policy and stated that it has been in place for over 20 years. A copy of their Investment Advisory Agreement was also provided and relief association management provided the following:

Our Investment Advisory Agreement has been in place since June 4, 1996 which appointed Bishop & Associates as our Investment Advisor for our Relief Association Investment Account. We receive regular monthly transaction reports from Bishop & Associates and they are all kept with our records in our Business Office and available for viewing by all Relief Board Officers. I also attached a photo of the binder with those records. As Bishop & Associates, Inc. provides us with Investment Management Services, we cannot meet daily to discuss each transaction as it occurs as this is why we hired Bishop & Associates, Inc. All investment purchases and sales have been and continue to be kept in the binder. These records are kept in an organized manner in the Business Office with all other Relief records and available for anyone to view in the fire department. We are aware of the requirement of two signatures and as the paperwork that was sent by Bishop & Associates, Inc. had inadvertently only asked for one signature, it was an oversight on our part and Bishop & Associates, Inc. We have already contacted Bishop & Associates, Inc. and have asked them to make sure there are two signatures requested with respect to any transactions.

Auditor's Conclusion: Based on the management response, although the relief association officials did provide a copy of the investment policy and investment agreement, the officials did not provide documentation disclosing approval by the membership of the investment purchase at an association meeting or require the signatures of at least two officers, one of whom shall be the disbursing officer, for all negotiable instruments. Therefore, the finding and recommendation remain as stated. Compliance will be subject to verification through our next audit.

**Finding No. 3 – Inadequate Investment Records**

Condition: Relief association officials did not maintain adequate records of investments purchased and sold, as well as the source of investment income. Specifically, the investment statements for Pulse InfoFrame Inc. were not maintained by relief association officials, nor were they identified in the minutes of the relief association's meetings.

GETTYSBURG FIRE DEPARTMENT FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Criteria: Section 7415(a) of Act 118 states:

A volunteer firefighters' relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it 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.

Additionally, sound accounting procedures for investment purchases and sales should include the recording of the following:

- Date of purchase or sale of the security
- Identification number of the security
- Rate of interest
- Date of receipt of interest/dividend income
- Date of maturity

Cause: Relief association officials failed to establish adequate accounting procedures to record the transactions of its investments.

Effect: The failure to maintain sufficient documentation for investment transactions prevents officials from effectively monitoring the relief association's financial position.

Recommendation: We recommend that the relief association officials ensure that investment statements are maintained to monitor their investments to make sure they are maximizing their investment return. We also recommend that the relief association officials take the necessary steps to record all future investments purchased and sold, and identify the source and amount of investment income, so that all investment transactions are sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: The relief association management provided the following response:

I have attached the specific bank statement and Investment report showing the transaction in question. This information was in our records along with all of our investment reports and bank statements.

GETTYSBURG FIRE DEPARTMENT FIREMEN'S RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Auditor's Conclusion: Based on the management response, although the relief association officials did in the end provide a copy of the investment statement, the statement was not provided during our audit process and the officials did not provide documentation disclosing approval by the membership of the investment purchase at an association meeting. Therefore, the finding and recommendation remain as stated. Compliance will be subject to verification through our next audit.

GETTYSBURG FIRE DEPARTMENT FIREMEN'S RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2017

Cash	\$ 163,586
Fair Value of Investments	<u>694,566</u>
Total Cash and Investments	<u>\$ 858,152</u>

GETTYSBURG FIRE DEPARTMENT FIREMEN'S RELIEF ASSOCIATION  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 39,411
Death benefits	9,600
Relief benefits	1,700
Tokens of sympathy and goodwill	1,893
Total Benefit Services	\$ 52,604
Fire Services:	
Equipment purchased	\$ 249,499
Equipment maintenance	60,446
Training expenses	27,842
Fire prevention materials	5,078
Total Fire Services	\$ 342,865
Administrative Services:	
Other administrative expenses	\$ 4,020
Bond premiums	300
Total Administrative Services	\$ 4,320
Total Investments Purchased	\$ 225,000
Total Expenditures	\$ 624,789

GETTYSBURG FIRE DEPARTMENT FIREMEN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Gettysburg Fire Department Firemen's Relief Association Governing Body:

**Mr. Kenneth C. Kime, Jr.**  
President

**Mr. William Dempsey, Jr.**  
Vice President

**Ms. Dawn E. Six**  
Recording Secretary

**Mr. Jack Ferguson**  
Membership Secretary

**Mr. Albert Knerr**  
Treasurer



GETTYSBURG FIRE DEPARTMENT FIREMEN'S RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

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

**Mr. Charles R. Gable**  
Borough Manager  
Gettysburg Borough

**Ms. Mary Sherman**  
Secretary  
Highland Township

**Mr. Bruce Hartman**  
Appointed Treasurer  
Mount Joy Township

**Ms. Diane L. Groft**  
Secretary  
Mount Pleasant Township

**Ms. Robin K. Crushing**  
Township Manager  
Straban Township

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