

# COMPLIANCE AUDIT

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## Quakake Volunteer Firemen's Relief Association of the State of Pennsylvania Schuylkill County For the Period January 1, 2015 to December 31, 2016

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April 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Mr. James Stewart, President  
Quakake Volunteer Firemen's Relief  
Association of the State of Pennsylvania  
Schuylkill County

We have conducted a compliance audit of the Quakake Volunteer Firemen's Relief Association of the State 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, 2015 to December 31, 2016.

The objective of the audit was 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 objective 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 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, 2015 to December 31, 2016, 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 Surety (Fidelity) Bond Coverage

Finding No. 2 – Inadequate Relief Association Bylaws And 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.

April 2, 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2015</u>	<u>2016</u>
Rush Township	Schuylkill	\$24,355	\$24,203

The volunteer firefighters' relief association and the affiliated fire service organizations are separate, legal entities. The relief association is affiliated with the following fire service organizations:

Hometown Fire Company

Quakake Volunteer Fire Company

QUAKAKE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE  
STATE OF 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 September 9, 2016. As of December 31, 2016, the relief association's cash assets totaled \$95,713.

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 that the Surety (Fidelity) bond coverage lapsed 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, as a result of our audit, the relief association obtained the Surety (Fidelity) bond coverage, effective January 19, 2018, in an amount greater than the balance of the relief association's cash assets.

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

QUAKAKE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE  
STATE OF PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Inadequate Relief Association Bylaws And Inadequate Signatory Authority  
For The Disbursement Of Funds**

Condition: The existing bylaws of the relief association do not contain all of the provisions required by Act 118 at 35 Pa.C.S. § 7415(c). Specifically, the bylaws do not address the signature requirement of at least two officers, one of whom shall be the disbursing officer, in order to bind the association by formal contract or to issue any negotiable instrument.

In addition, during the current audit period, we identified four checks out of seven checks selected for testing that, while containing two signatures, one of the signatures was from a trustee who was not an authorized officer as stated in the relief association's bylaws.

Criteria: Act 118 at 35 Pa.C.S. § 7415(c)(3) states, that the relief association's 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 Three, Section 4, of the relief association's bylaws state, in part:

He (treasurer) shall not disburse any money except upon an order signed by the President and Secretary.

Furthermore, prudent business practice dictates that the relief association has sufficient internal control procedures in place to ensure the signatures of at least two authorized relief association officials are included on all negotiable instruments.

Cause: Relief association officials neglected to amend the relief association's bylaws to meet the bylaw provisions required by Act 118 and also neglected to establish adequate internal control procedures that require the signatures of at least two authorized officers on all negotiable instruments.

Effect: As a result of the mandatory provision not being included in the bylaws and the issuance of checks with only one authorized signature, the relief association may have conducted its affairs without proper authorization.



QUAKAKE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE  
STATE OF PENNSYLVANIA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Recommendation: We recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize the operating procedures of the relief association. In addition, we recommend that the relief association officials establish adequate internal control procedures to ensure that the signatures of at least two authorized 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.

QUAKAKE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE  
STATE OF PENNSYLVANIA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH BALANCE  
AS OF DECEMBER 31, 2016

Cash	<u>\$ 95,713</u>
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QUAKAKE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE  
STATE OF PENNSYLVANIA  
SUPPLEMENTARY FINANCIAL INFORMATION  
SUMMARY OF EXPENDITURES  
FOR THE PERIOD JANUARY 1, 2015 TO DECEMBER 31, 2016

Expenditures:

Benefit Services:	
Insurance premiums	\$ 12,754
	<hr/>
Fire Services:	
Equipment purchased	\$ 20,048
Equipment maintenance	1,457
Training expenses	25
Total Fire Services	<hr/> \$ 21,530 <hr/>
Administrative Services:	
Other administrative expenses	\$ 2,434
Bond premiums	221
Total Administrative Services	<hr/> \$ 2,655 <hr/>
Other Expenditures:	
Miscellaneous *	<hr/> \$ 20,333 <hr/>
Total Expenditures	<hr/> <hr/> \$ 57,272 <hr/> <hr/>

\* During 2016, two erroneous deposits were made in the total amount of \$20,333. On September 26, 2016, the relief association returned the \$20,333 to Quakake Township.

QUAKAKE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE  
STATE OF PENNSYLVANIA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Quakake Volunteer Firemen's Relief Association of the State of Pennsylvania Governing Body:

**Mr. James Stewart**  
President

**Mr. Edward Tite, III**  
Vice President

**Ms. Lorraine Brill**  
Secretary

**Ms. Cindy Messer Schmidt**  
Treasurer

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

**Ms. Deborah DelFranco**  
Secretary  
Rush 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).