

# COMPLIANCE AUDIT

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## Ralpho Fire Co. #1 Relief Association

Northumberland County, Pennsylvania  
For the Period  
January 1, 2019, to December 31, 2021

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January 2023



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. Erik K. Santor, President  
Ralpho Fire Co. #1 Relief Association  
Northumberland County

We have conducted a compliance audit of the Ralpho Fire Co. #1 Relief Association (relief association) for the period January 1, 2019, to December 31, 2021. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

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, nor was it required to be, conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

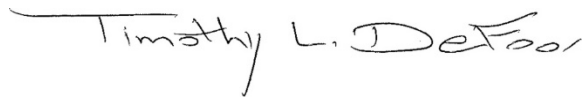
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, 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, 2019, to December 31, 2021, 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 Secure Ownership Interest In Jointly Purchased Vehicle And Equipment

Finding No. 2 – Inadequate Signatory Authority For The Disbursement Of Funds

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a horizontal line above the first name.

Timothy L. DeFoor  
Auditor General  
November 9, 2022

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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<sup>1</sup>, and the Volunteer Firefighters' Relief Association Act<sup>2</sup> ("VFRA Act"), 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<sup>3</sup> (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.

The VFRA Act 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, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, 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.

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<sup>1</sup> 72 P.S. § 403 (as last amended by Act 44 of 2017).

<sup>2</sup> 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

<sup>3</sup> 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

## BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Ralpho Township	Northumberland	\$12,268	\$12,378	\$10,992

Based on the relief association's records, its total cash and investments as of December 31, 2021, were \$87,017, as illustrated below:

Cash	\$ 21,588
Fair Value of Investments	<u>65,429</u>
Total Cash and Investments	<u>\$ 87,017</u>

Based on the relief association's records, its total expenditures for the period January 1, 2019, to December 31, 2021, were \$128,008, as noted below. The accuracy of these expenditures was evaluated as part of the Department's audit to conclude on the relief association's compliance 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.<sup>4</sup> **The scope of the Department's audit does not include the issuance of an opinion on the accuracy of these amounts.**

### Expenditures:

Benefit Services:	
Insurance premiums	<u>\$ 2,478</u>
Fire Services:	
Equipment purchased	\$ 120,061
Equipment maintenance	1,810
Training expenses	<u>2,857</u>
Total Fire Services	<u>\$ 124,728</u>
Administrative Services:	
Bond premiums	\$ 732
Other administrative expenses	<u>70</u>
Total Administrative Services	<u>\$ 802</u>
Total Expenditures	<u>\$ 128,008</u>

<sup>4</sup> Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

## **BACKGROUND – (Continued)**

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:

Ralpho Fire Company #1

RALPHO FIRE CO. #1 RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Vehicle And Equipment**

Condition: On February 20, 2019, the relief association expended \$8,625 for emergency lighting on a vehicle owned by the affiliated fire company. Also, on December 18, 2019, the relief association expended \$100,000 toward the purchase of a vehicle that is owned by the affiliated fire company. However, the relief association did not adequately secure its ownership interest in the jointly purchased vehicle and equipment. The relief association did not enter into an agreement stating that the relief would receive its pro-rated share of the proceeds if the equipment or vehicle was ever sold, and the vehicle was titled solely in the name of the affiliated fire company.

Criteria: Section 7418(a) of the VFRA Act states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased vehicle and equipment by executing a formal written agreements that enumerates the relief association's proportional share provided towards the purchase of the vehicle and equipment. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicles/equipment, in the event the vehicles/equipment are ever sold.

Cause: The relief association officials were not aware that they needed ownership agreements to protect their ownership share of the vehicles/equipment.

Effect: The failure to adequately secure the relief association's proportional share of ownership interest in jointly purchased vehicles and equipment places the relief association's ownership interest at greater risk.



RALPHO FIRE CO. #1 RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that the relief association officials execute formal written agreements with the fire company that enumerates the relief association’s proportional ownership interest in the jointly purchased vehicle/equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicles/equipment are ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$108,625. 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 affiliated fire company provided the properly executed agreements on September 8, 2022.

Auditor’s Conclusion: We reviewed documentation verifying that formal agreements were completed. Compliance for future joint purchases of equipment and vehicles will be subject to verification through our next audit.

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

Condition: During the current audit engagement, we identified four checks out of twelve checks that were tested from the relief association’s checking account transactions that only contained the signature of one officer, even though two signatures are required by the VFRA Act and the relief association bylaws. Issuing checks with the signature of only one relief association officer negates the relief association’s internal control over the disbursement process.

Criteria: Section 7415(c)(3) of the VFRA Act 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 4 states, in part:

The signatures of at least two officers, one of whom shall be the treasurer, shall be required for the issuance of relief association checks.

RALPHO FIRE CO. #1 RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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: According to relief association officials, the bank sent a letter to the relief association stating that now only one signature is required on the checks.

Effect: As a result of the relief association officer issuing checks 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.

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 the VFRA Act and the relief association bylaws. 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.

RALPHO FIRE CO. #1 RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Ralpho Fire Co. #1 Relief Association Governing Body:

**Mr. Erik K. Santor**  
President

**Mr. Michael Purcell**  
Vice President

**Ms. Shannon Rosini**  
Secretary

**Ms. Sandra Herr**  
Treasurer

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

**Ms. Debra L. Olson**  
Secretary  
Ralpho 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).