

COMPLIANCE AUDIT

Ralston Volunteer Fire Company Relief Association of Ralston, McIntyre Township, Lycoming County, Commonwealth of Pennsylvania For the Period January 1, 2017 to December 31, 2018

November 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Mr. Donald C. Martin, Jr., President
Ralston Volunteer Fire Company Relief
Association of Ralston, McIntyre
Township, Lycoming County,
Commonwealth of Pennsylvania
Lycoming County

We have conducted a compliance audit of the Ralston Volunteer Fire Company Relief Association of Ralston, McIntyre Township, Lycoming County, Commonwealth 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, 2017 to December 31, 2018.

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, 2017 to December 31, 2018, 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 – Unauthorized Expenditures

Finding No. 2 – 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.

October 29, 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 municipality:

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>
McIntyre Township	Lycoming	\$2,883	\$2,601

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:

Ralston Volunteer Fire Company

RALSTON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF RALSTON,
 MCINTRYE TOWNSHIP, LYCOMING COUNTY,
 COMMONWEALTH OF PENNSYLVANIA
 FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditures

Condition: The relief association expended funds for the following items during the current audit period that are not authorized by Act 118:

Date	Check No.	Description	Amount
11/13/17	Transfer	Transfer to affiliated fire company account	\$ 5,000
08/31/18	271	Insurance policy payment for affiliated fire company	7,325
Total			<u>\$ 12,325</u>

Criteria: Section 7416(f) of Act 118 states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of the affairs of the association, including legal fees, rental or purchase of offices, payment of reasonable compensation of employees and purchase of office equipment and supplies.
- (12) To secure insurance against the legal liability of volunteer firefighters for loss and expense from claims arising out of performance of official and authorized duties while going to, returning from or attending fires or performing their duties as special fire police.

Costs associated with the transfer of funds to the affiliated fire company and the payment of the affiliated fire company’s insurance policy premium do not qualify as authorized volunteer firefighters’ relief association expenditures; consequently, these disbursements are not authorized under Act 118.

Cause: Relief association officials indicated that they were unaware that the aforementioned expenditures were not authorized by Act 118.

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

RALSTON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF RALSTON,
MCINTRYE TOWNSHIP, LYCOMING COUNTY,
COMMONWEALTH OF PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the relief association be reimbursed \$12,325 for the unauthorized expenditures and that relief association officials become familiar with Section 7416(f) of Act 118 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. On October 3, 2018, the affiliated fire company had transferred \$3,925 into a relief association account as partial reimbursement resulting in a remaining unauthorized expenditure balance of \$8,400. On September 4, 2019 the affiliated fire company reimbursed the relief association \$8,400 for the unauthorized expenditures.

Auditor’s Conclusion: We reviewed documentation verifying that the reimbursements of \$3,925 and \$8,400 were received. Compliance for expenditures made during the next audit period 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 three checks out of nine checks drawn on the relief association’s checking account that only contained the signature of one officer, even though two signatures are required by Act 118 and the relief association bylaws. Issuing checks with the signature of only one officer negates the relief association’s internal control over the disbursement process.

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, Article III, Section 1-2D of the relief association’s bylaws state:

All checks shall be signed by the Treasurer and co-signed by the President or another officer appointed by the Association.

RALSTON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF RALSTON,
MCINTRYE TOWNSHIP, LYCOMING COUNTY,
COMMONWEALTH OF PENNSYLVANIA
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: Relief association officials neglected to establish adequate internal control procedures that require the signatures of at least two officers on all negotiable instruments.

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 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.

RALSTON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF RALSTON,
MCINTRYE TOWNSHIP, LYCOMING COUNTY,
COMMONWEALTH OF PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2018

Cash	<u>\$ 7,905</u>
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RALSTON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF RALSTON,
 MCINTRYE TOWNSHIP, LYCOMING COUNTY,
 COMMONWEALTH OF PENNSYLVANIA
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 2,092
Fire Services:	
Equipment purchased	\$ 1,920
Equipment maintenance	865
Training expenses	140
Total Fire Services	\$ 2,925
Administrative Services:	
Other administrative expenses	\$ 69
Bond premiums	200
Total Administrative Services	\$ 269
Other Expenditures:	
Miscellaneous*	\$ 3,500
Unauthorized Expenditures	12,325
Total Other Expenditures	\$ 15,825
Total Expenditures	\$ 21,111

*The relief association made an erroneous withdrawal on September 5, 2018; however, on September 5, 2018, the \$3,500 was deposited back into the relief association account. We disclosed this issue to relief association officials as a verbal observation during the conduct of our audit.

RALSTON VOLUNTEER FIRE COMPANY RELIEF ASSOCIATION OF RALSTON,
MCINTRYE TOWNSHIP, LYCOMING COUNTY,
COMMONWEALTH OF PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ralston Volunteer Fire Company Relief Association of Ralston, McIntyre Township, Lycoming
County, Commonwealth of Pennsylvania Governing Body:

Mr. Donald C. Martin, Jr.
President

Ms. Tiffany Austin
Secretary

Ms. Tawny Dietrick
Treasurer

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

Mr. Daniel P. Clark
Secretary
McIntyre Township

This report is a matter of public record and is available online at 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.