



**RELIEF ASSOCIATION OF THE CITIZEN'S FIRE  
COMPANY NO. 1 OF PALMYRA,  
PENNSYLVANIA**

**LEBANON COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2010 TO DECEMBER 31, 2012**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**





Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Mr. David C. Williams, President  
PALMYRA VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Lebanon County

We have conducted a compliance audit of the Palmyra 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, 2010 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 objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above.

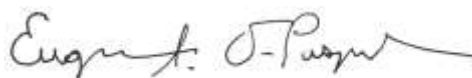
Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Palmyra Volunteer Firefighters' Relief Association's administration of state aid and accumulated relief funds complies with applicable 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 objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the Palmyra Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Palmyra 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 objective. 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 objective.

The results of our audit, for the period January 1, 2010 to December 31, 2012, found the Palmyra 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 later in this report.. The results of our tests also indicated the Palmyra Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2012, had a cash balance of \$124,331 and no investments.

- Finding No. 1 – Improper Documentation of Loan to the Relief Association
- Finding No. 2 – Inadequate Surety (Fidelity) Bond Coverage
- Finding No. 3 – Failure to Maintain A Complete and Accurate Equipment Roster

The contents of this report were discussed with the management of the Palmyra Volunteer Firefighters' Relief Association.

April 14, 2014



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Insufficient Documentation Of Loan To The Relief Association.....	3
Finding No. 2 – Inadequate Surety (Fidelity) Bond Coverage .....	4
Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster.....	5
Accompanying Expenditure Information .....	7
Report Distribution List .....	8

## 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 of the Citizen's Fire Company no. 1 of Palmyra, Pennsylvania, herein referred to as the Palmyra 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.

**BACKGROUND – (Continued)**

The Palmyra Volunteer Firefighters’ Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
North Londonderry Township	Lebanon	\$61,140	\$102,040	\$59,019
Palmyra Borough	Lebanon	\$46,431	\$ 72,016	\$42,232

The volunteer firefighters’ relief association and the affiliated fire service organization are separate, legal entities. The Palmyra Volunteer Firefighters’ Relief Association is affiliated with the following fire service organization:

Citizen’s Fire Company No. 1

PALMYRA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding – Insufficient Documentation Of Loan To The Relief Association

Condition: On January 3, 2012, the volunteer firefighters' relief association entered into a loan agreement with an affiliated fire company to borrow \$140,000; however, as of fieldwork date, the relief association only received funds totaling \$90,000 from the affiliated fire company and deposited these funds into the relief association's checking account, according to relief association records.

Criteria: Adequate accounting and internal control procedures would dictate the loan transaction be fully documented through a formal written agreement that specifies the actual amount borrowed and the payment schedule and interest rate and is signed by both parties.

Cause: Relief association officials were unaware of the necessity to maintain complete, written documentation of their financial obligations.

Effect: As a result of the loan being improperly documented, relief association officials were unable to effectively monitor the relief association's financial position.

Recommendation: We recommend the relief association obtain and deposit the additional loan proceeds of \$50,000 from the affiliated fire company or amend the loan agreement with the affiliated fire company to properly reflect the actual amount of loan proceeds received amounting to \$90,000 and adjust the payment and interest schedule, accordingly, to reflect the reduced loan amount. If such documentation cannot be acquired, we recommend that the loan be immediately liquidated. 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 subsequent audit.



PALMYRA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Surety (Fidelity) Bond Coverage

Condition: The relief association failed to maintain adequate Surety (Fidelity) bond coverage on the association's disbursing officer as required by Act 118. Specifically, the Surety (Fidelity) bond policy in effect during, as well as subsequent to the audit period, was issued jointly in the name of the relief association and the affiliated fire company.

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.

Since the relief association and the affiliated fire company are separate and distinct legal entities, the relief association should maintain a Surety (Fidelity) bond on the relief association's disbursing officer, solely in the name of the relief association to ensure that there is adequate protection of relief association assets.

Cause: Relief association officials were unaware of the Act 118 provisions regarding the maintenance of Surety (Fidelity) bond coverage on the relief association's disbursing officer.

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

Recommendation: We recommend the relief association ensure that a performance bond sufficiently covers the relief association's authorizing disbursing officer, 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.

Auditor's Conclusion: Compliance will be subject to verification though our subsequent audit.

PALMYRA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: The relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. 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 owned equipment. Specifically, several items purchased during the current audit period were omitted from the roster.

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.

PALMYRA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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 though our subsequent audit.

PALMYRA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2010 TO DECEMBER 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.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 17,463
Tokens of sympathy and goodwill	1,427
Total Benefit Services	\$ 18,890
Fire Services:	
Equipment purchased	\$ 224,070
Equipment maintenance	119,122
Training expenses	10,759
Fire prevention materials	320
Total Fire Services	\$ 354,271
Administrative Services:	
Other administrative expenses	\$ 2,305
Other Expenditures:	
Principal payments on loan	\$ 48,804
Interest payments on loan	9,713
Principal payments on lease-financing	20,000
Interest payments on lease-financing	951
Total Other Expenditures	\$ 79,468

PALMYRA VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Palmyra Volunteer Firefighters' Relief Association Governing Body:

Mr. David C. Williams    President

Mr. Justin Ballard        Vice President

Ms. Melissa Gernert      Secretary

Mr. C. Thomas Wood      Treasurer

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

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

Ms. Lisa M. Daubert, Secretary  
North Londonderry Township

Mr. Roger E. Powl, Secretary  
Palmyra Borough

Mr. Andy Braden, Secretary  
Palmyra

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).