

COMPLIANCE AUDIT

Volunteer Firemen's Relief Association of Empire Hook & Ladder Co., Pottstown, PA Montgomery County, Pennsylvania For the Period January 1, 2012 to December 31, 2015

May 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • 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. Curtis Deihl, President
Volunteer Firemen's Relief Association of
Empire Hook & Ladder Co., Pottstown, PA
Montgomery County

We have conducted a compliance audit of the Volunteer Firemen's Relief Association of Empire Hook & Ladder Co., Pottstown, PA (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, 2012 to December 31, 2015.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding contained in our prior audit report.
2. To determine if the 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 objectives identified above.

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, 2012 to December 31, 2015:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- The 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.

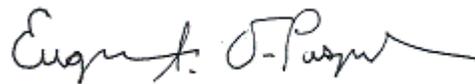
Finding No. 1 – Failure To Secure Ownership In Jointly Purchased Equipment

Finding No. 2 – Inadequate Internal Controls

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 response has 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.

May 19, 2016



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. The relief association's bylaws define the specific operational procedures by which the 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 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 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Pottstown Borough	Montgomery	\$30,385	\$33,961	\$32,142	\$30,447

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:

Empire Hook & Ladder Co., Pottstown, PA

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF EMPIRE HOOK & LADDER CO,
POTTSTOWN, PA
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Failure To Adhere To Relief Association Bylaws

By making benefit payments to only eligible individuals injured as a result of their participation in the fire service.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF EMPIRE HOOK & LADDER CO,
POTTSTOWN, PA
FINDINGS AND RECOMMENDATIONS

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

Condition: On April 8, 2010, the relief association expended \$2,689 for the purpose of jointly purchasing equipment with the affiliated fire company. However, the relief association did not adequately secure its ownership interest in this jointly purchased equipment by entering into a formal written agreement which enumerates the relief association's proportional share.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) 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 equipment by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the equipment, in the event the equipment is ever sold.

Cause: Relief association officials failed to adequately secure its proportional ownership interest in the jointly purchased equipment.

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

Recommendation: We recommend that the relief association officials execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the equipment is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$2,689. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF EMPIRE HOOK & LADDER CO,
POTTSTOWN, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: Relief association management agreed with the finding as presented 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 Internal Controls

Condition: The relief association has failed to establish adequate internal controls. The following internal control weaknesses existed during the audit period:

- An account with a January 1, 2013 beginning balance of \$500 incurred inactivity fees during the audit period without adequate oversight. As of December 31, 2015, the account balance was \$41.
- Relief association officers collected salaries in excess of \$600 annually and were not provided with a Form 1099 Misc. reporting the total amount distributed to each officer.

Criteria: Act 118 at 35 Pa.C.S. § 7415(a) states, in part, that the relief association:

... 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.

In addition, Article 13 Section 1 of the relief association's bylaws states, in part:

- The Trustee shall examine all financial investments of the Corporation to determine the soundness for both income and safety of principal and their approval must be given to the Delegates as stated or special meeting prior to such investments being made.

Furthermore, prudent business practice dictates that:

- Account balances are properly monitored.
- The relief association operates in accordance with Federal guidelines.

Cause: Relief association officials failed to establish adequate internal controls to ensure the propriety of expenditures and proper documentation of relief association transactions. Relief association officials indicated that they were unaware of the relief association's ineffective internal control system.

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF EMPIRE HOOK & LADDER CO,
POTTSTOWN, PA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Internal Controls – (Continued)

Effect: The failure to establish adequate internal controls prevents the relief association from adequately safeguarding its assets. Furthermore, the lack of effective internal controls places the relief association funds at greater risk for misappropriation.

Recommendation: We recommend that the relief association officials adopt internal control procedures which will require the following:

- Monitoring transaction activity occurring within relief association accounts.
- Issuing 1099 forms to relief association officers who collect more than \$600 annually.

For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTER'S RELIEF ASSOCIATION.

Management's Response: Relief association management agreed with the finding as presented and indicated they will take action to comply with the recommendation.

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

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF EMPIRE HOOK & LADDER CO,
POTTSTOWN, PA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH AND INVESTMENT BALANCES
AS OF DECEMBER 31, 2015

Cash	\$	39,549
Fair Value of Investments	\$	<u>92,299</u>
Total Cash and Investments	\$	<u><u>131,848</u></u>

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF EMPIRE HOOK & LADDER CO,
POTTSTOWN, PA
SUPPLEMENTARY FINANCIAL INFORMATION
EXPENDITURES
FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2015

Expenditures:

Benefit Services:	
Insurance premiums	\$ 45,255
Relief benefits	15,600
Tokens of sympathy and goodwill	166
Total Benefit Services	\$ 62,021
Fire Services:	
Equipment purchased	\$ 78,382
Equipment maintenance	9,953
Training expenses	3,853
Fire prevention materials	2,593
Total Fire Services	\$ 94,781
Administrative Services:	
Officer compensation	\$ 13,650
Other administrative expenses	982
Bond premiums	861
Total Administrative Services	\$ 15,493
Total Investments Purchased	\$ 21,700
Total Expenditures	\$ 193,995

VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF EMPIRE HOOK & LADDER CO,
POTTSTOWN, PA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Volunteer Firemen's Relief Association of Empire Hook & Ladder Co., Pottstown,, PA
Governing Body:

Mr. Curtis Deihl
President

Ms. Mary Beth Schoettle
Secretary

Mr. Brian Sierocinski
Treasurer

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

Mr. Mark D. Flowers
Secretary
Pottstown Borough

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.