

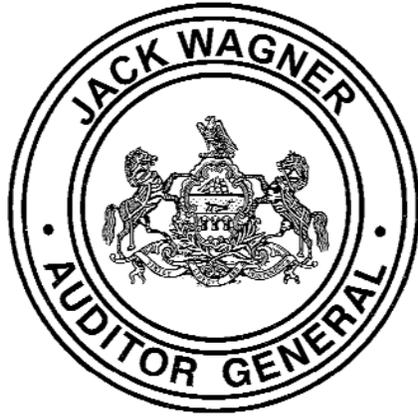
**VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
EMPIRE HOOK & LADDER CO., POTTSTOWN, PA**

MONTGOMERY COUNTY

COMPLIANCE AUDIT REPORT

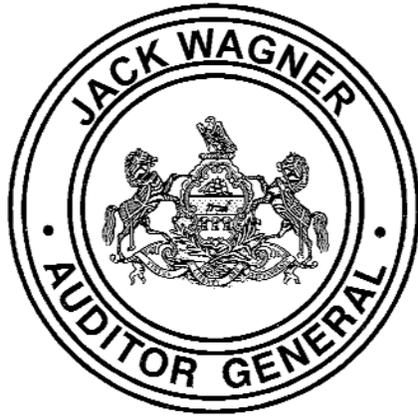
FOR THE PERIOD

JANUARY 1, 2008 TO DECEMBER 31, 2009



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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 Volunteer Firemen's Relief Association of Empire Hook & Ladder Co., Pottstown, PA, herein referred to as Empire 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. The Empire Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>
Pottstown Borough	Montgomery	\$33,900	\$30,739

BACKGROUND (Continued)

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

Empire Hook & Ladder Co.

Mr. David Ondik, President
EMPIRE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Montgomery County

We have conducted a compliance audit of the Empire 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, 2008 to December 31, 2009.

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 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 Empire 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 Empire Volunteer Firefighters' Relief Association's recorded financial transactions, tests of

the physical existence of inventories, interviews of selected officials and direct confirmation of the Empire Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2009, 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, 2008 to December 31, 2009, found the Empire Volunteer Firefighters' Relief Association, in all significant respects, received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures. The results of our tests also indicated the Empire Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2009, had a cash balance of \$31,312 and an investment balance with a fair value of \$109,467.

However, we noted a matter that has been included in the following observation and detailed in the Observation section of this report.

Observation – Payment of Discretionary Benefits

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

September 15, 2010

JACK WAGNER
Auditor General

EMPIRE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Payment of Discretionary Benefits

As cited in our three prior audit reports, the relief association, again, paid discretionary benefits that may have a detrimental effect on the future financial solvency of the relief association. During the current audit period, the relief association paid \$10,500 in discretionary relief benefits to seven members of the relief association. The benefits are for members, with at least one year of service, who are unable to work due to illness or injury that occurred while performing fire services or through other employment. Qualifying members receive an amount not to exceed more than \$100 per month for prescription and other medical costs. We determined that only one of the seven relief association members receiving these discretionary benefits was injured as a result of an injury that occurred while performing fire service. While Act 118 includes provisions for the payment of discretionary benefits, we are concerned with the extent of the benefits offered and the effect on the financial resources of the relief association, as noted below:

- during the current audit period, \$10,500 or 9.3% of the relief association expenditures were for discretionary relief benefits;
- the relief association's total assets declined by 15%, from \$165,384 as of December 31, 2007, which was the end of our prior audit period, to \$140,778 as of December 31, 2009. This decrease is partly attributable to the payment of discretionary relief benefits;
- the relief association's total assets have declined by 32% from \$207,781 as of December 31, 2003, which was the end of the first audit period that this written observation was included in our audit report, to \$140,778 as of December 31, 2009. This decrease is partly attributable to the payment of discretionary relief benefits; and
- the annual amount of state aid received remains relatively constant and the continued payment for these discretionary benefits may affect the financial stability of the relief association.

We recommend the relief association perform the following procedures in order to preserve and protect the financial solvency of the relief association:

- reevaluate the payment of discretionary benefits to members and determine if the amounts offered could have an effect on the future financial status of the relief association;
- establish limitations or benefits caps on the amount of benefits being offered;
- on an annual basis, reevaluate claimants' needs for the continuation of relief benefit payments; and
- consider eliminating paying benefits for injuries occurring through other employment.

EMPIRE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2009

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.

Furthermore, all expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 26,194
Relief benefits	10,500
Tokens of sympathy and goodwill	725
Total Benefit Services	\$ 37,419
Fire Services:	
Equipment purchased	\$ 26,347
Equipment maintenance	34,564
Training expenses	550
Fire prevention materials	2,930
Total Fire Services	\$ 64,391
Administrative Services:	
Officer compensation	\$ 7,200
Other administrative expenses	625
Total Administrative Services	\$ 7,825
Total Investments Purchased	\$ 3,000

EMPIRE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Empire Volunteer Firefighters' Relief Association Governing Body:

Mr. David Ondik, President

Mr. H. William Lachman, Vice President

Mr. Donald Gebhard, Secretary

Mr. Mark S. Gibson, Treasurer

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

Ms. Virginia L. Takach, Secretary
Pottstown Borough

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.