

**THE RELIEF ASSOCIATION OF THE OGONTZ FIRE COMPANY**

**HEREIN REFERRED TO AS:**

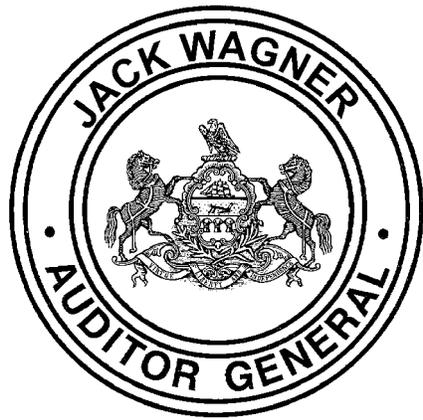
**OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**MONTGOMERY COUNTY**

**AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2002 TO DECEMBER 31, 2004**



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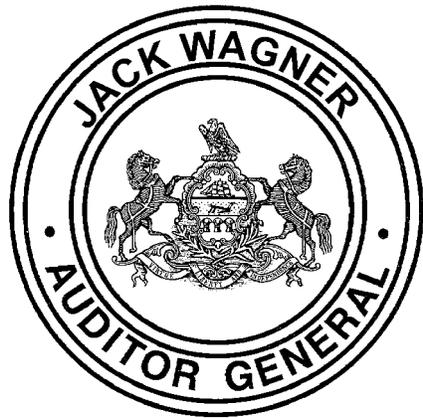
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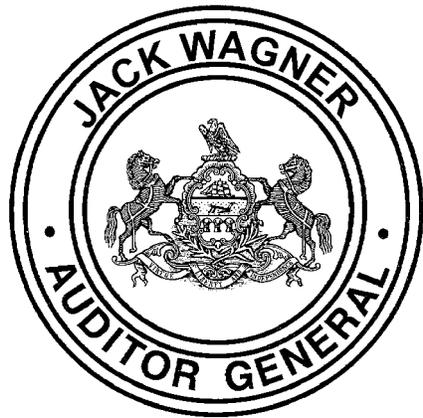
## BACKGROUND

This audit report is a public record, which must be available for examination by all interested citizens and volunteer firefighters' relief association (VFRA) members.

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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), 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.

This department conducts its audits of volunteer firefighters' relief associations in accordance with generally accepted auditing standards. Representations contained in the accompanying financial statements are the responsibility of the relief association's management. This department's responsibility for those statements is confined solely to an expression of our opinion as to the fairness of management's representation of the financial statements taken as a whole.

Act 84 requires that the relief association be governed in accordance with bylaws, which establish the association's operating procedures. Act 84 provides that the primary purpose of a relief association is to afford financial protection to volunteer firefighters against misfortunes suffered during fire service participation. To fulfill this purpose, Act 84 authorizes specific types of expenditures and outlines appropriate relief association investment options. Within the parameters established by Act 84, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.



## **Independent Auditor's Report**

Mr. Jack Washington, President  
OGONTZ VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Montgomery County

We have audited the accompanying Statement of Monetary Assets Arising From Cash Transactions as of December 31, 2004, and the related Statement of Cash Receipts, Disbursements, and Changes in Cash of the Ogontz Volunteer Firefighters' Relief Association for the period January 1, 2002 to December 31, 2004. These financial statements are the responsibility of the relief association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Department of the Auditor General is mandated by state statute to calculate state aid provided to volunteer firefighters' relief associations and to audit volunteer firefighters' relief associations having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

**Independent Auditor's Report** (Continued)

As described in Note 2, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the monetary assets arising from cash transactions of the Ogontz Volunteer Firefighters' Relief Association as of December 31, 2004, and the cash receipts, disbursements, and changes in cash for the period January 1, 2002 to December 31, 2004, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2005, on our consideration of the Ogontz Volunteer Firefighters' Relief Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

November 22, 2005

JACK WAGNER  
Auditor General

OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATEMENT OF MONETARY ASSETS ARISING FROM CASH TRANSACTIONS  
DECEMBER 31, 2004

ASSETS:

Cash (note 3)	\$ 98,802
Investments (note 4)	<u>93,234</u>
Total Monetary Assets	<u>\$ 192,036</u>

Notes to financial statements are an integral part of this report.

OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH  
FOR THE PERIOD JANUARY 1, 2002 TO DECEMBER 31, 2004

RECEIPTS:

Support:		
State aid (note 5)	\$	142,685
Other Receipts:		
Investments sold		4,122
Interest income		2,087
Dividend income		1,499
Proceeds from equipment sold		23,333
Reimbursements		<u>892</u>
Total Receipts		<u>174,618</u>

DISBURSEMENTS:

Fire Services:		
Equipment purchased		23,805
Equipment maintenance		14,107
Training expenses		17,104
Benefit Services:		
Insurance premiums		61,705
Administrative Services:		
Bank service fees		65
Other Disbursements:		
Income reinvested		1,397
Miscellaneous expenses		<u>1,105</u>
Total Disbursements		<u>119,288</u>
Net Increase or (Decrease) In Cash		55,330
Cash Balance, January 1		<u>43,472</u>
Cash Balance, December 31	\$	<u><u>98,802</u></u>

Notes to financial statements are an integral part of this report.

OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION

Pursuant to the Act of June 11, 1968, (P.L. 149, No. 84), as amended, the Ogontz Volunteer Firefighters' Relief Association is a charitable organization that was formed to afford financial protection to volunteer firefighters and to encourage individuals within the community to participate in volunteer fire service.

Act 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws regulate the specific procedures by which the association assets are managed.

The Ogontz Volunteer Firefighters' Relief Association is affiliated with Ogontz Fire Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The relief association's records are maintained on a cash basis, and the statement of cash receipts and disbursements reflect only cash received and disbursed. Therefore, receivables and payables, long-lived assets, accrued income and expenses, and depreciation, which would otherwise be recognized under accounting principles generally accepted in the United States of America (GAAP) and which may be material in amount, are not recognized in the accompanying financial statements.
- B. Fixed assets are recognized as expenditures at the time of purchase, rather than being capitalized and depreciated over their estimated useful lives.
- C. The relief association did not adopt Statement of Financial Accounting Standard (SFAS) No. 117 since they do not follow GAAP.
- D. The nature of the relief association's monetary assets is considered to be unrestricted.
- E. All investments of the relief association are carried at their original cost to the association, rather than the fair value.

OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS

3. CASH

Cash consisted of the following at December 31, 2004:

Checking account	\$	27,859
Savings account		64,650
Brokerage cash account		6,293
 Total Cash	 \$	 <u>98,802</u>

4. INVESTMENTS

The investments held by the relief association as of December 31, 2004, consisted of the following:

	Cost	Fair Value
Government-backed mortgages	\$ 386	\$ 423
Mutual funds	92,848	106,798
 Total Investments	 <u>\$ 93,234</u>	 <u>\$ 107,221</u>

5. STATE AID

Chapter 7 of the Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 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 relief association of the fire department or departments, which is or are recognized as providing service to the municipality.

During the years 2002, 2003, and 2004, the Ogontz Volunteer Firefighters' Relief Association received state aid from Cheltenham Township in Montgomery County.

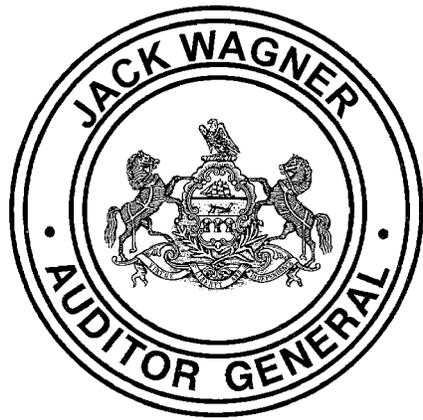
OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS

6. RELATED PARTY SITUATIONS

A related party situation exists because the volunteer firefighters' relief association is affiliated with the fire service organization disclosed in Note 1. The relief association is a distinct separate legal entity that was established primarily for the purpose of affording financial protection to the volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service.

Another related party situation exists because an officer of the relief association holds an office in the fire service organization. Also, an officer of the relief association is an immediate family member of another relief association and fire service organization officer.

The relief association membership is aware of these situations and all transactions are approved by the relief association membership.



**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

Mr. Jack Washington, President  
OGONTZ VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Montgomery County

We have audited the financial statements (cash basis) of the Ogontz Volunteer Firefighters' Relief Association as of December 31, 2004, and for the period January 1, 2002 to December 31, 2004, and have issued our report thereon dated November 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Department of the Auditor General is mandated by state statute to calculate state aid provided to volunteer firefighters' relief associations and to audit volunteer firefighters' relief associations having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ogontz Volunteer Firefighters' Relief Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*** (Continued)

financial reporting that, in our judgement, could adversely affect Ogontz Volunteer Firefighters' Relief Association's ability to record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the following findings:

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Inadequate Financial Record-Keeping System

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by association officers in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described in Finding Nos. 1 and 2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ogontz Volunteer Firefighters' Relief Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the following findings:

Finding No. 1 – Undocumented Expenditures

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Inadequate Financial Record-Keeping System

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Failure to Obtain a Pennsylvania Sales Tax Exemption Number

**Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards* (Continued)**

We are concerned that these material weaknesses in the relief association's internal controls, especially in light of the relief association's failure to correct previously reported audit findings, may cause misstatements in financial statements, a greater risk of misappropriation of monetary assets, and/or a loss of assets through the lack of accountability. The relief association management should strive to implement the recommendations and corrective actions noted in this audit report to properly safeguard the monetary assets of the relief association.

This report is intended solely for the information and use of the relief association's members and management, and the officials of the municipalities that grant the foreign fire insurance tax monies to the volunteer firefighters' relief association. It is not intended to be and should not be used by anyone other than these specified parties.

November 22, 2005

JACK WAGNER  
Auditor General

OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures:

Date	Check No.	Amount
01/22/02	376	\$ 825
01/24/02	375	936
03/25/02	383	520
09/17/03	725	179
09/17/03	728	100
Total		\$ 2,560

Criteria: Act 84 at 53 P.S. § 8507(a) states, in part:

The Department of the Auditor General shall have the power, and its duty shall be, to audit the accounts and records of every volunteer firefighters' relief association receiving any 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 amended, as far as may be necessary to satisfy the department that the money received was expended or is being expended for no purpose other than that authorized by this act.

Without adequate supporting documentation, such as invoices, this department is unable to determine if the relief association funds were expended for purposes authorized by Act 84. Furthermore, good business practices would require that supporting documentation be maintained to verify the propriety of all financial transactions.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure supporting documentation for expenditures is maintained.

Effect: Lack of supporting documentation, such as invoices and detailed minutes of meetings, made it impossible to determine the expenditures were made in accordance with Act 84 at 53 P.S. § 8506(e).

OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend the relief association provide this department with adequate supporting documentation, such as invoices, to determine the validity of the expenditures or that the relief association be reimbursed \$2,560 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all 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.

OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Inadequate Financial Record-Keeping System

Condition: As cited in the prior audit report, the relief association's financial record-keeping system did not provide effective control over cash receipts, disbursements, and monetary assets, and does not meet the minimum requirements of maintaining financial records established by this department. The following are the noted deficiencies:

- A journal was not maintained to record the receipts and disbursements of the relief association.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Documentation to support various expenditures was not available for examination at the time of the audit.
- Cancelled checks were unavailable for examination at the time of the audit.

Criteria: Act 84 at 53 P.S. § 8505 (a) states, in part, that the relief association:

. . . must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

In addition, an adequate system of accounting and record keeping is a prerequisite for sound administration of relief association assets.

Cause: While notified of this condition in the prior audit report, relief association officials neglected their various record-keeping responsibilities.

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We again recommend the relief association establish and maintain a financial record-keeping system, which meets the minimum record-keeping requirements of this department. 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.

OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Failure to Obtain a Pennsylvania Sales Tax Exemption Number

Condition: As cited in two prior audit reports, the relief association failed to obtain a Pennsylvania sales tax exemption number. The relief association is currently using the fire service organization's sales tax exemption number, although the fire service organization and the relief association are separate legal entities.

Criteria: Act 84 at 53 P.S. 8505(e) states:

Any volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes including the right to establish exemption from the operation of certain taxes.

Cause: While notified of this condition in two prior audit reports, the relief association neglected to apply for its own sales tax exemption number from the Department of Revenue.

Effect: As a result of the relief association's failure to obtain a sales tax exemption number, the relief association may be required to pay Pennsylvania sales tax on their purchases, which ultimately reduces the funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We again recommend the relief association immediately apply for a state sales tax exemption number from the Department of Revenue and furnish this exemption number to all vendors from whom the relief association purchases equipment. 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.

OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act<sup>1</sup>, it is the responsibility of the volunteer firefighters' relief association to invest its funds in a proper and prudent manner.

As these investments typically provide an income stream to the relief association for annual operations, it is generally sensible not to invest all VFRA money in one asset or asset class that places the principal at risk. In fact, state law requires VFRA's to "reasonably diversify investments, unless the [VFRA] reasonably determines that it is in the interest of the beneficiaries not to diversify..."<sup>2</sup>.

By diversifying investments, the VFRA can help preserve capital, increase liquidity and decrease volatility. Diversification means spreading one's money among different investments; asset allocation diversifies total investments among different investment classes, such as stocks, bonds, government securities, and cash equivalents.

As observed in Notes 3 and 4 of the VFRA's financial statements, the VFRA had \$106,798 (fair value) or 52% of the VFRA's cash and investments in mutual funds.

The VFRA management should periodically review its specific cash needs and investment goals and ensure that its investments are allocated and diversified to prudently meet those needs and goals.

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<sup>1</sup> 53 P.S. § 8506(c)(1997). This provision incorporates the "prudent investor rule" of the Probate, Estates, and Fiduciaries Code, 20 Pa. C.S.A. §7201 et seq.

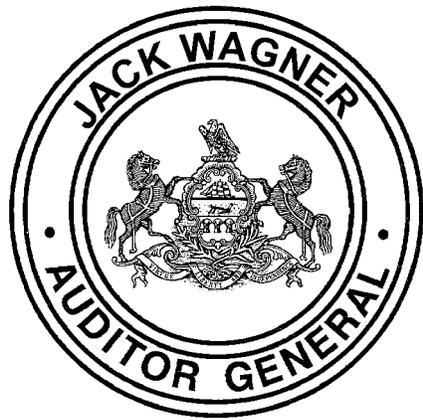
<sup>2</sup> 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
COMMENT

PRIOR AUDIT RECOMMENDATION

Failure to Maintain a Complete and Accurate Equipment Roster

The relief association has complied with the prior audit recommendation by maintaining a cumulative roster of all equipment owned.



OGONTZ VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Ogontz Volunteer Firefighters' Relief Association Officers:

Mr. Jack Washington, President

Ms. Jodi Henry, Secretary

Mr. Philip Washington, Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Mr. David G. Kraynik, Secretary  
Cheltenham Township

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](http://www.auditorgen.state.pa.us).