



**NORTH END FIRE COMPANY RELIEF ASSOCIATION OF  
POTTSTOWN, PENNSYLVANIA**

**MONTGOMERY COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008 TO DECEMBER 31, 2010**

**JULY 2013**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**







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Commonwealth of Pennsylvania  
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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Mr. Martin Durchin, President  
NORTH END VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Montgomery County

We have conducted a compliance audit of the North End 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, 2010.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. 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 objectives identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the North End 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 objectives, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the North End Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the North End Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2010, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objectives. 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 objectives.

The results of our audit, for the period January 1, 2008 to December 31, 2010, found the North End Volunteer Firefighters' Relief Association took appropriate corrective action to address three of the six findings contained in our prior audit report. However, the North End Volunteer Firefighters' Relief Association failed to take appropriate corrective action to address the remaining findings contained in our prior audit report, as listed below and discussed in the Status of Prior Findings section of this report. In addition, the results of our audit found the North End Volunteer Firefighters' Relief Association did not, in all significant respects, receive and expend state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, as noted in the findings listed below and discussed in detail in the Findings and Recommendations section of this report. The results of our tests also indicated the North End Volunteer Firefighters' Relief Association expended funds as presented in the Accompanying Expenditure Information and, as of December 31, 2010, reported a cash balance of \$30,761 and had an investment balance with a fair value of \$11,154.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Membership Roster

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure to Maintain Minutes of Meetings

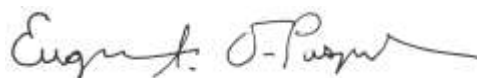
Furthermore, two scope limitations exist on our audit as detailed in the following observations and included in the Observations section of this report:

Observation No. 1 – Scope Limitation - Inability to Confirm Investment  
Account Balance

Observation No. 2 – Scope Limitation - Inability to Verify Two Signature  
Requirement

The contents of this report were discussed with the management of the North End Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

September 7, 2011



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 North End Fire Company Relief Association of Pottstown, Pennsylvania, herein referred to as North End 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 North End Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Pottstown Borough	Montgomery	\$33,900	\$30,739	\$34,599

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

North End Fire Company

NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The North End Volunteer Firefighters' Relief Association has complied with the following prior audit findings and recommendations:

- Inappropriate Disbursement of Insurance Proceeds

By receiving reimbursement on July 31, 2009, in the amount of \$14,628, from the North End Fire Company.

- Failure to Document Ownership Interest in Jointly Purchased Vehicle

By executing a formal written agreement, on October 1, 2009, with the North End Fire Company that enumerates the relief association's proportionate ownership interest in the jointly purchased vehicle as well as stipulating the proportionate sales proceeds revert to the relief association in the event the vehicle is ever sold.

- Inadequate Relief Association Bylaws

By revising the relief association's bylaws to meet the minimum requirement of Act 118.

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The North End Volunteer Firefighters' Relief Association has not complied with three of the six prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster
- Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Membership Roster
- Noncompliance With Prior Audit Recommendation –  
Inadequate Minutes of Meetings

We are concerned with the volunteer firefighters' relief association's failure to correct the previously reported audit findings. The association management should strive to implement the recommendations and corrective actions noted in this audit report.

NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in our prior audit report, the relief association officials, again, failed to maintain a complete and accurate roster of equipment owned by the relief association. While a listing of relief association owned equipment was provided, it was incomplete and did not include all equipment purchased in 2008 and none of the equipment purchased in 2009 and 2010. In addition, the equipment roster did not accurately identify equipment owned by the relief association. Specifically, the list of equipment that was provided did not contain all dates of purchase, unit costs, names of suppliers, serial numbers, or final dispositions of sold or damaged equipment. Since 2004, the relief association equipment purchases have totaled \$149,902 and \$145,074 of this amount has not been properly accounted for on the relief association's equipment roster. Furthermore, 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 fixed assets.

Criteria: Sound 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 fixed assets. 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: Even though notified of this condition during our prior audit, relief association officials, again, neglected to establish adequate internal control procedures over fixed assets requiring the maintenance of a cumulative equipment roster and the performance of an annual physical inventory of equipment.

NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 1 – (Continued)

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 fixed assets prevents adequate accountability for, and safeguarding of, relief association fixed assets.

Recommendation: We, again, 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.

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.

NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Failure to Maintain a Complete and Accurate Membership Roster

Condition: As cited in our prior audit report, the relief association officials, again, failed to maintain a complete and accurate roster of relief association members. While a roster of relief association members was provided, it did not include the members' mailing addresses and dates of memberships.

Criteria: Relief association officials should maintain a complete and accurate roster of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive roster of all relief association members should include the following:

- Names of each member;
- Members' mailing addresses;
- Dates of births;
- Dates of memberships; and
- Membership classifications.

In addition, when warranted, a notation should be made on the roster identifying the date of a member's resignation or death.

Cause: Even though notified of this condition during our prior audit, relief association officials, again, neglected to maintain a comprehensive roster of relief association members.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to nonmembers, or deprive eligible relief association members from receiving authorized benefit payments.

Recommendation: We, again, recommend the relief association officials compile and maintain a complete and accurate roster of the relief association's membership. For additional 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.



NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS (Continued)

Finding No. 3 – Noncompliance With Prior Audit Recommendation –  
Inadequate Minutes of Meetings

Condition: As cited in our prior audit report, the relief association, again, failed to maintain detailed minutes of meetings as required by Act 118. Minutes of meetings were not maintained for the current audit period.

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 2, Section 2.09, of the relief association's bylaws states, in part:

The regular stated meeting of the Board of Directors shall be held on the second Tuesday of each month at 7:00 P.M. at the North End Fire Company. At such meeting, the Board shall transact such business as may be properly be brought before the meeting.

Furthermore, Article 3, Section 3.10, of the relief association's bylaws states, in part:

The secretary or an assistant secretary shall attend all meetings of the Board and shall record all the votes of the directors and the minutes of meetings of the Board and of committees of the Board in a book or books to be kept for the purposes; shall see that notices are given and records and reports are properly kept and filed by the Association as required by law.

Cause: Even though notified of this condition during our prior audit, relief association officials, again, neglected to maintain detailed minutes of meetings as required by Act 118.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

Recommendation: We, again, recommend the relief association maintain detailed minutes of meetings, evidencing the discussion and approval of all financial-related business conducted by the relief association. 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.

NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
OBSERVATIONS

Observation No. 1 – Scope Limitation – Inability to Confirm Investment Account Balance

We could not confirm \$22,855 of the North End Volunteer Firefighters' Relief Association (VFRA) cash balance reported at \$30,761, as of December 31, 2010. While we received a confirmation for a \$7,906 checking account balance from the respective financial institution, the remaining money market account balance of \$22,855 was not confirmed by that respective financial institution. Two separate requests for an independent confirmation of this account balance were made on September 8, 2011 and September 28, 2011 to the financial institution from which the VFRA purchased this money market account. While the VFRA provided a December 2010, financial institution account statement detailing this money market account balance, the financial institution failed to provide an independent confirmation of the account balance.

Act 118 at 35 Pa.C.S. § 7418(a) states, in part, that 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 . . . 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.

Generally Accepted Government Auditing Standards (GAGAS) Section No. 6.56 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 6.61(f) states, "Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity."

Statement of Auditing Standards (SAS) No. 106 requires auditors to request independent confirmations of account balances directly from the financial institution from which the VFRA maintains its funds.

Even though we made two requests, a confirmation of this account's investment balance was not provided by the respective financial institution.

Our inability to confirm the VFRA's money market account balance constitutes a scope limitation on our audit.

NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
OBSERVATIONS (Continued)

Observation No. 2 – Scope Limitation – Inability to Verify Two Signature Requirement

The North End Volunteer Firefighters' Relief Association (VFRA) does not maintain canceled or imaged checks. Without copies of canceled or imaged checks, we could not determine whether two VFRA officers authorized and signed the checks. While the VFRA provided bank statements, the VFRA failed to provide copies of canceled or imaged checks.

Act 118 at 35 Pa.C.S. § 7415(c)(3) states, in part, 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.

Act 118 at 35 Pa.C.S. § 7418(a) states, in part, that 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 . . . 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.

Generally Accepted Government Auditing Standards (GAGAS) Section No. 6.56 states, "Auditors must obtain sufficient appropriate evidence to provide a reasonable basis for their findings and conclusions." GAGAS Section No. 6.61(f) states, "Evidence obtained from a knowledgeable, credible, and unbiased third party is generally more reliable than evidence from management of the audited entity or others who have a direct interest in the audited entity."

Our inability to review canceled checks or imaged checks constitutes a scope limitation on our audit.

## NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

### POTENTIAL WITHHOLD OF STATE AID

Conditions of repeat findings, such as those reported in the noncompliance findings detailed in this report, may lead to a total withholding of state aid in the future unless the findings are corrected. However, such action will not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the volunteer firefighters' relief association to: Department of the Auditor General, Bureau of Firefighters' Relief Association Audits, Room 316-D Finance Building, Harrisburg, PA 17120.

NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2010

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	\$ 54,338
Relief benefits	125
Tokens of sympathy and goodwill	126
Total Benefit Services	\$ 54,589
Fire Services:	
Equipment purchased	\$ 63,762
Equipment maintenance	8,912
Training expenses	75
Total Fire Services	\$ 72,749
Administrative Services:	
Miscellaneous administrative expenses	\$ 25
Total Administrative Services	\$ 25



NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

North End Volunteer Firefighters' Relief Association Governing Body:

Mr. Martin Durchin, President

Mr. Christian Surman, Vice President

Ms. Bea Hettrick, Secretary

Mr. Joshua Overholt, 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 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).