



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

**HEREIN REFERRED TO AS:**

**NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**MONTGOMERY COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2004 TO DECEMBER 31, 2007**



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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, 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.

The 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 84 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 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' 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.

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 North End Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Pottstown Borough	Montgomery	\$28,822	\$32,726	\$32,555	\$33,239

BACKGROUND (Continued)

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

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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2004 to December 31, 2007.

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 North End Volunteer Firefighters' Relief Association's administration of state aid and accumulated 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 applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objective. We also tested transactions, confirmed the North End Volunteer Firefighters' Relief Association's investment balance and the cash balance as of December 31, 2007, with the custodian of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objective.

The results of our audit for the period January 1, 2004 to December 31, 2007, found, in all significant respects, the North End Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report. The results of our tests indicated the North End Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2007, had a cash balance of \$40,426 and an investment balance with a fair value of \$10,000.

Finding No. 1 – Inappropriate Disbursement of Insurance Proceeds

Finding No. 2 – Failure to Document Ownership Interest in Jointly Purchased Vehicle

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

Finding No. 4 – Failure to Maintain a Complete and Accurate Membership Roster

Finding No. 5 – Inadequate Minutes of Meetings

Finding No. 6 – Inadequate Relief Association Bylaws

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.

October 24, 2008

JACK WAGNER  
Auditor General



NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inappropriate Disbursement of Insurance Proceeds

Condition: During the year 2004, the relief association's insurance carrier issued a check in the amount of \$14,628 for an insurance claim filed by the relief association in June 2001 against their officer's bond policy. The relief association deposited this check into a relief association account on June 18, 2004. However, on July 20, 2004, the relief association erroneously issued a check to the North End Fire Company for \$14,628 believing that the relief association had erroneously deposited fire company funds into its account. Therefore, by disbursing these funds to the fire company the relief association inappropriately transferred funds to the affiliated fire company that belonged to the relief association. As of the date of this report, these funds remain due to the relief association.

Criteria: Act 84 at 53 P.S. § 8506(e)(1) states:

The funds of any volunteer firefighters' relief association may be spent:

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of its affairs including legal fees and including but not by way of limitation the rental or purchase of offices, the payment of reasonable compensation of any needed employees, and the purchase of office equipment and supplies.

In addition, 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.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure that the relief association disbursements are made in accordance with Act 84.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 84.

NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend the relief association seek reimbursement, in the amount of \$14,628, from the North End Fire Company to recover the funds belonging to the relief association. In addition, we recommend the relief association officials become familiar with Act 84 to aid them in determining the propriety of future expenditures. For further guidance, please refer 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

Finding No. 2 – Failure to Document Ownership Interest in Jointly Purchased Vehicle

Condition: During the period December 17, 2003 through October 24, 2008, the North End Volunteer Firefighters' Relief Association made 15 payments, totaling \$53,610, toward the purchase of a 2004 KME fire fighting vehicle. The 15 payments made during this period of time consisted of an initial payment of \$39,196 on December 17, 2003, and 14 monthly payments made toward the affiliated fire company's PEMA loan on the vehicle, totaling \$14,415. While the disbursements for the purchase of this vehicle are considered authorized by Act 84, the relief association did not document its proportionate ownership interest in the vehicle. At the time of the audit, we were provided a letter from the affiliated fire company that denoted the relief association's involvement in the purchase of the vehicle but it was not in the form of an agreement between the two entities and it did not establish the relief association's proportionate ownership interest in the vehicle. The relief association's proportionate ownership interest in the vehicle was not documented as of the date of this report.

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.

Prudent business practice dictates that the relief association should document its proportionate ownership interest in the jointly purchased vehicle 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 vehicle, in the event the vehicle is ever sold.

Cause: Relief association officials were informed of the necessity to document the relief association's proportionate ownership interest in the vehicle during the prior audit, on April 15, 2004, but still have not adequately documented the relief association's proportionate ownership interest in the jointly purchased vehicle.

Effect: Failure to adequately document the proportional share of ownership interest in the jointly purchased vehicle places the relief association's ownership interest at greater risk.

NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend the relief association execute a formal written agreement with the affiliated fire company that enumerates the relief association's proportionate ownership interest in the jointly purchased vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$53,611. 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

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

Condition: While a roster of relief association owned equipment was provided during the current audit, it was incomplete as it did not include all equipment purchases made during the audit period. The roster provided only included one of eight purchases made during 2006 and did not include any purchases made during 2007. Furthermore, there was no indication that an annual inventory of the equipment was performed to account for the relief association's fixed assets.

Criteria: 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 roster of all relief association equipment should include the following:

- Type of equipment purchased.
- Date of purchase.
- Unit cost.
- Name of supplier.
- Serial number, if applicable.
- Current location of item.
- Final disposition of sold or damaged equipment.
- Notation of the annual inventory.

Cause: Relief association officials failed to establish adequate internal control procedures over fixed assets to include the maintenance of a cumulative equipment roster and the performance of an annual equipment inventory.

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 equipment inventory prevents adequate accountability and safeguarding of relief association assets.

Recommendation: We recommend the relief association officials maintain a cumulative roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual inventory of all operable equipment and that 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

Finding No. 4 – Failure to Maintain a Complete and Accurate Membership Roster

Condition: The relief association officials did not maintain a complete and accurate roster of relief association members. While the relief association provided a roster of members during the current audit, it did not include the date of membership for some of the members and members' mailing addresses were incomplete.

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:

- Name of each member.
- Member's mailing address.
- Date of birth.
- Date of membership.
- Membership classification.

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

Cause: Relief association officials were unaware that they should maintain a complete and updated 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 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

Finding No. 5 – Inadequate Minutes of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings, as required by Act 84. Specifically, the relief association's minutes that were maintained for the audit period did not address all of the financial-related transactions that occurred in 2006. In addition, the minutes did not indicate the names of the members present at the meeting, thus making it impossible to determine if the quorum requirements were met.

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.

Article 2, Section 2.10, of the relief association's bylaws states:

Section 2.10: **Quorum, Manner of Acting, and Adjournment.** Except as otherwise provided in this Article, a majority of the directors in office shall be present at each meeting in order to constitute a quorum for the transaction of business. Every director shall be entitled to one vote. Except as otherwise specified in the articles or these by-laws or provided by statute, the acts of a majority of the directors present at a meeting at which a quorum is present shall be the acts of the Board. In the absence of a quorum, a majority of the directors present and voting may adjourn the meeting from time to time until a quorum is present. The directors shall act only as a board and the individual directors shall have no power as such, except that any action which may be taken at a meeting of the Board may be taken without a meeting, if a consent or consents in writing setting forth the action so taken shall be signed by all of the directors in office and shall be filed with the secretary of the Association.

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

Section 3.10, **The Secretary.** 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 the meetings of the Board and of committees of the Board in a book or books to be kept for that purposes; shall see that notices are given and records and reports properly kept and filed by the Association as required by law.

Cause: Relief association officials were unaware that maintaining detailed minutes of meetings was required by Act 84 and the relief association's bylaws.

NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Effect: The failure to maintain detailed minutes of meetings prevented the verification as to whether all relief association business was presented before the membership for approval.

Recommendation: We recommend the relief association maintain detailed minutes of meetings, including an adequate record of all financial-related business conducted by the relief association as required by Act 84 and the relief association's bylaws. 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

Finding No. 6 – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the North End Volunteer Firefighters' Relief Association do not contain all of the provisions required by Act 84 at 53 P.S. § 8505(c). Specifically, the bylaws do not require the relief association to be bonded in an amount greater than the balance of cash assets. Although the officer's bond policy that was in place during the audit period was maintained in a sufficient amount to safeguard the balance of cash assets on deposit, we believe the stipulation requiring the amount of bond coverage is necessary to be contained within the relief association's bylaws so that the relief association membership and management are aware of the operating procedures mandated by Act 84 that are necessary to properly safeguard relief association assets.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that the relief association's bylaws shall include the following provision:

- Require the disbursing officer to be bonded by corporate surety for the faithful performance of his duties in an amount that shall be at least as great as the maximum cash balance in current funds of the relief association at any time during the fiscal year.

Cause: Relief association officials were unaware of the mandatory bylaw provisions established by Act 84.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association membership and management may not be aware of the operating procedures mandated by Act 84 that are necessary to properly safeguard relief association assets.

Recommendation: We recommend that relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 84 and properly define the operating procedures of 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  
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported in Finding Nos. 1 and 2 may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action will not be considered if sufficient documentation is immediately provided 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, 406 Finance Building, Harrisburg, PA 17120.

NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2007

Act 84 at 53 P.S. § 8502(1) states, in part, that:

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. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, 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. 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	\$ 48,539
Death benefits	10,000
Total Benefit Services	\$ 58,539
Fire Services:	
Equipment purchased	\$ 86,139
Equipment maintenance	18,671
Training expenses	3,396
Fire prevention materials	1,942
Total Fire Services	\$ 110,148
Administrative Services:	
Miscellaneous administrative expenses	\$ 257
Total Administrative Services	\$ 257
Total Investments Purchased	\$ 10,000
Other Expenditures:	
Incorrect reimbursement to fire company	\$ 14,628
Total Other Expenditures	\$ 14,628



NORTH END VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

North End Volunteer Firefighters' Relief Association Officers:

Mr. Martin Durchin, President

Mr. Joel Bui, Treasurer

Reports were also distributed to each 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](http://www.auditorgen.state.pa.us).