

COMPLIANCE AUDIT

Brecknock Township Fire Co. No. 1 Relief Association Berks County, Pennsylvania For the Period January 1, 2017 to December 31, 2019

June 2020



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Jason Lutz, President
Brecknock Township Fire Co. No. 1
Relief Association
Berks County

We have conducted a compliance audit of the Brecknock Township Fire Co. No. 1 Relief Association (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, 2017 to December 31, 2019.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the findings contained in our prior audit report.
2. To determine if the relief association complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds.

Our audit was limited to the areas related to the objectives identified above and was not, nor was it required to be, conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, including the safeguarding of assets. Relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

We were not able to obtain an independent confirmation of the cash balance directly from the financial institution. Therefore, while the relief association provided copies of bank statements that indicated that, as of December 31, 2019, the relief association had a cash balance of \$25,771, we were not able to verify this cash balance.

We were also not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided copies of bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

In addition, due to a stay at home order issued by the Governor of the Commonwealth of Pennsylvania during the COVID-19 pandemic, we were unable to observe any of the relief association's original invoices to verify legitimacy, and we were also unable to observe any of the relief association's equipment to verify its existence.

Based on our audit procedures, we conclude that for the period January 1, 2017 to December 31, 2019:

- The relief association did not take appropriate corrective action to address the findings contained in our prior audit report, as detailed below and discussed in the Status of Prior Findings section of this report.
- Except for the effects, if any, of the matters described in the three preceding paragraphs, the relief association, in all significant respects, complied with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Deposit Insurance Claim Proceeds

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

The three audit findings contained in this report cite conditions that existed in the operation of the relief association during the prior audit period and were not corrected during the current audit period. We are concerned by the number of findings noted and strongly encourage timely implementation of the recommendations noted in this audit report.

The contents of this report were discussed with the management of the relief association and, where appropriate, their responses have been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

May 27, 2020

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (commonly referred to as Act 205), are properly expended.

The relief association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of volunteer firefighters' relief associations. Relief association bylaws define the specific operational procedures by which relief associations conduct 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 relief associations to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations that is or are recognized as providing the service to the municipality.

BACKGROUND – (Continued)

The relief association was allocated state aid from the following municipality:

Municipality	County	2017	2018	2019
Brecknock Township	Berks	\$30,466	\$27,700	\$29,992

Based on the relief association’s records, their total cash and investments as of December 31, 2019 were \$25,771, as illustrated below:

Cash	\$ 25,771
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Based on the relief association’s records, their total expenditures for the period January 1, 2017 to December 31, 2019 were \$91,124, as noted below. The accuracy of these expenditures was evaluated as part of the Department’s audit to conclude on the relief association’s compliance with applicable state laws, contracts, bylaws, and administrative procedures as they relate to the receipt of state aid and the expenditure of relief association funds.¹ **The scope of the Department’s audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Benefit Services:	
Insurance premiums	\$ 12,314
Fire Services:	
Equipment purchased	\$ 53,111
Equipment maintenance	20,771
Training expenses	4,433
Total Fire Services	\$ 78,315
Administrative Services:	
Other administrative expenses	\$ 45
Bond premiums	450
Total Administrative Services	\$ 495
Total Expenditures	\$ 91,124

¹ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

BACKGROUND – (Continued)

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

Brecknock Township Fire Company

BRECKNOCK TOWNSHIP FIRE CO. NO. 1 RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

NONCOMPLIANCE WITH PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

The relief association has not complied with the following prior audit findings. These findings are noted below and discussed in detail in the Findings and Recommendations section of this report:

- Failure To Deposit Insurance Claim Proceeds

Although the relief association received reimbursement of \$2,356 from the affiliated fire company for the insurance policy that was cancelled in the prior audit period, the relief association again cancelled an insurance policy in the current audit period and again erroneously deposited the proceeds into the affiliated fire company's bank account as further disclosed in Finding No. 1 of this report.

- Inadequate Relief Association Bylaws

- Failure To Maintain A Complete And Accurate Equipment Roster

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

BRECKNOCK TOWNSHIP FIRE CO. NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Deposit
Insurance Claim Proceeds**

Condition: In 2019, the relief association cancelled an insurance policy that was paid for by relief association funds, and the proceeds in the amount of \$2,248 were erroneously deposited into the affiliated fire company's bank account.

A similar condition was noted in our prior audit report.

Criteria: Prudent business practice dictates that the relief association should closely monitor all monetary refunds filed to make sure all refund proceeds are received and timely deposited into a relief association account.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to establish internal control procedures to ensure that all refund proceeds are timely deposited into a relief association account.

Effect: The failure to deposit all relief association refund proceeds in a timely manner can lead to a greater risk that funds could be lost or misappropriated. As a result of the proceeds from the insurance refund being deposited into a fire company account, the relief association was unable to use the funds to purchase replacement equipment, for general operating expenses, or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$2,248 for the erroneous deposit. We also recommend the relief association officials establish accounting and internal control procedures to ensure that all refund proceeds are timely deposited in a relief association account. 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, subsequent to the period under review, the affiliated fire company reimbursed the relief association \$2,248 for the erroneous deposit on March 10, 2020.

Auditor's Conclusion: We reviewed the documentation verifying that the reimbursement of \$2,248 was received. Compliance for deposit of refunds made during the next audit period will be subject to verification through our next audit.

BRECKNOCK TOWNSHIP FIRE CO. NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inadequate Relief Association Bylaws

Condition: The existing bylaws of the relief association do not contain all of the provisions required by Section 7415(c) of Act 118. Specifically, the bylaws do not address the approval and payment of expenditures and the investment of funds; the maintenance of an officers' bond policy; and the requirement of two signatures on checks.

A similar condition was noted in our prior audit report.

Criteria: Section 7415(c)(3,4,6) of Act 118 states that the relief association's bylaws shall:

Require 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.

Require that the disbursing officer, whether designated treasurer, comptroller, financial secretary or otherwise, shall be bonded by corporate surety for faithful performance of duty. The amount of the bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on the bond shall be a proper charge against funds of the association.

Establish procedures for the approval and payment of expenditures, investment of funds and sale of investments.

Furthermore, the relief association bylaws should authorize and clearly specify the criteria to be met before receiving death or relief benefits and the amount of any benefit payments. In addition, the bylaws should address the authorization of compensation to relief association officers.

Cause: Even though notified of this condition during our prior audit, relief association officials again neglected to amend the relief association bylaws to meet the bylaw provisions required by Act 118.

Effect: As a result of the mandatory provisions not being included in the bylaws, the relief association may have conducted its affairs without proper authorization.

Recommendation: We again recommend that the relief association officials review and update the bylaws governing their organization so that the bylaws meet the requirements set forth in Act 118 and properly authorize 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.

BRECKNOCK TOWNSHIP FIRE CO. NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Maintain A Complete And Accurate Equipment Roster

Condition: The relief association failed to maintain a complete and accurate roster of equipment owned by the relief association. Although a listing of relief association owned equipment was provided during the current audit period, it was incomplete because it did not contain the names of suppliers (vendors) or dates of purchase to accurately identify equipment owned by the relief association. As such, it was impossible to determine if all equipment purchased during the audit period in the amount of \$53,111 was recorded. In addition, there was no indication that a physical inventory of equipment was conducted on an annual basis to account for the equipment owned by the relief association.

A similar condition was noted in our prior audit report.

Criteria: Prudent business practice dictates that 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 equipment. A cumulative equipment roster of all relief association equipment should include all of 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
- Evidence of the performance and results of an annual physical inventory

BRECKNOCK TOWNSHIP FIRE CO. NO. 1 RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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

Effect: The continued 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 equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We again recommend that the relief association officials maintain a cumulative equipment roster of all equipment owned by the relief association. 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.

Auditor's Conclusion: We are concerned by the relief association's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

BRECKNOCK TOWNSHIP FIRE CO. NO. 1 RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Brecknock Township Fire Co. No. 1 Relief Association Governing Body:

Mr. Jason Lutz
President

Mr. Neil Singerling
Vice President

Mr. Christopher Bowman
Secretary

Mr. Wade Marshall
Treasurer

Ms. Ashlee Lutz
Financial Secretary

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

Mr. Hunter L. Ahrens
Secretary
Brecknock Township

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.