

# COMPLIANCE AUDIT

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Relief Association of the  
Kempton Fire Company of Albany  
Township, PA  
Berks County, Pennsylvania  
For the Period  
January 1, 2019 to December 31, 2021

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May 2022



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Mr. Stephen Hamm, President  
Relief Association of the Kempton Fire  
Company of Albany Township, PA  
Berks County

We have conducted a compliance audit of the Relief Association of the Kempton Fire Company of Albany Township, PA (relief association) for the period January 1, 2019 to December 31, 2021. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding 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 independent confirmations of the cash balance directly from the financial institutions. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2021, the relief association had a cash balance of \$167,485, we were not able to verify this cash balance.

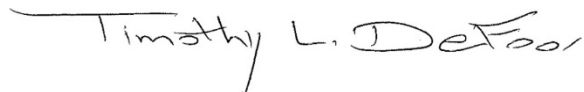
Based on our audit procedures, we conclude that, except for the effects, if any, of the matter described in the preceding paragraph, for the period January 1, 2019 to December 31, 2021:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- 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 – Untimely Receipt And Deposit Of State Aid

Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage

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.



Timothy L. DeFoor  
Auditor General  
April 18, 2022

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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<sup>1</sup>, and the Volunteer Firefighters' Relief Association Act<sup>2</sup> ("VFRA Act"), 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<sup>3</sup> (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.

The VFRA Act 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, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, 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.

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<sup>1</sup> 72 P.S. § 403 (as last amended by Act 44 of 2017).

<sup>2</sup> 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

<sup>3</sup> 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

**BACKGROUND – (Continued)**

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

<u>Municipality</u>	<u>County</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Albany Township	Berks	\$14,208	\$14,189	\$12,750
Greenwich Township	Berks	\$ 9,954	\$ 9,969	\$ 9,021
Lenhartsville Borough	Berks	\$ 309**	\$ 314**	\$ 274**

\* The 2019 state aid allocation received from Lenhartsville Borough was not deposited by the relief association until August 14, 2020 as disclosed in the finding in this report.

\*\* Although Lenhartsville Borough prepared and returned a Certification Form AG 385 for 2017, 2019, 2020, and 2021, the borough failed to submit the 2017, 2019, 2020, and 2021 Receipt And Distribution Of Foreign Fire Insurance Premium Tax Forms 706-B to this department as required by the instructions accompanying Form 706-B and the instructions accompanying the 2017, 2019, 2020, and 2021 state aid allocations received by the borough disclosing this information.

**Lenhartsville Borough is still required to complete the 2017, 2019, 2020, and 2021 Receipt and Distribution of Foreign Fire Insurance Premium Tax Forms 706-B online within the Department of Community & Economic Development’s Municipal Statistics website (MunStats) as soon as possible.**

Based on the relief association’s records, its total cash and investments as of December 31, 2021 were \$366,275, as illustrated below:

Cash	\$ 167,485
Fair Value of Investments	154,618
Book Value of Other Investments	<u>44,172</u>
Total Cash and Investments	<u><u>\$ 366,275</u></u>

**BACKGROUND – (Continued)**

Based on the relief association’s records, its total expenditures for the period January 1, 2019 to December 31, 2021 were \$246,233, 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.<sup>4</sup> **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	<u>\$ 11,817</u>
Fire Services:	
Equipment purchased	<u>\$ 405</u>
Administrative Services:	
Other administrative expenses	\$ 1,430
Bond premiums	<u>750</u>
Total Administrative Services	<u>\$ 2,180</u>
Total Investments Purchased	<u>\$ 231,831</u>
Total Expenditures	<u><u>\$ 246,233</u></u>

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:

Kempton Fire Company

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<sup>4</sup> Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

RELIEF ASSOCIATION OF THE KEMPTON FIRE COMPANY OF  
ALBANY TOWNSHIP, PA  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Unsecured Loan

By securing the fire company loan with a lien on a 1998 Peterbuilt tanker truck.



RELIEF ASSOCIATION OF THE KEMPTON FIRE COMPANY OF  
ALBANY TOWNSHIP, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Untimely Receipt And Deposit Of State Aid**

Condition: The relief association did not deposit the 2019 state aid allocation it received from Lenhartsville Borough, in the amount of \$309, until August 14, 2020. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 16, 2019, who did not forward this state aid to the relief association until July 15, 2020, which is not within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). In addition, upon receipt of the state aid allocation, the relief association did not ensure the funds were deposited timely into a relief association account.

Criteria: Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205), states:

The foreign fire insurance premium tax amount applicable to a municipality served solely by volunteer firefighters shall be paid to the municipality, which shall within 60 days of the date of the receipt of the moneys from the State Treasurer pay the amount received to the relief association fund of the fire department or departments, or fire company or companies, now existing or hereafter organized, inside or outside of the municipality, which is or are actively engaged in the service of the municipality and duly recognized by the governing body of the municipality.

Furthermore, prudent business practice dictates that upon receipt of its state aid allocation, the relief association should establish adequate internal control procedures to ensure the funds are deposited in a timely manner.

Cause: The relief association officials stated that they were unaware of the check not being received.

Effect: As a result of the untimely receipt and deposit, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely receipt and deposit of funds increases the risk that funds could be lost or misappropriated.

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely receipt and deposit of all future income received. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

RELIEF ASSOCIATION OF THE KEMPTON FIRE COMPANY OF  
ALBANY TOWNSHIP, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (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: Compliance will be subject to verification through our next audit.

**Finding No. 2 – Insufficient Surety (Fidelity) Bond Coverage**

Condition: The relief association did not maintain a Surety (Fidelity) bond in a sufficient amount to cover the relief association’s authorized disbursing officer. The relief association’s Surety (Fidelity) bond coverage amount was \$120,000; however, as of December 31, 2021, the relief association’s cash assets totaled \$167,485.

Criteria: Section 7415(c)(4) of the VFRA Act states, in part, 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 the funds of the association.

Cause: Relief association officials failed to monitor the relief association’s cash balance to ensure that the Surety (Fidelity) bond coverage on the relief association’s authorized disbursing officer was in compliance with the VFRA Act provisions.

Effect: As a result of the authorized disbursing officer of the relief association being insufficiently bonded, the relief association’s cash assets were not adequately safeguarded.

RELIEF ASSOCIATION OF THE KEMPTON FIRE COMPANY OF  
ALBANY TOWNSHIP, PA  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Recommendation: We recommend that the relief association officials ensure that its Surety (Fidelity) bond sufficiently covers the relief association's authorized disbursing officer, as required by the VFRA Act. This requirement may be accomplished by increasing the Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer to an amount greater than the expected maximum balance of the relief association's cash assets, or by decreasing the relief association's cash assets to an amount anticipated to remain below the policy coverage amount. In addition, relief association officials should monitor the relief association's cash balance to ensure that unexpected events affecting the relief association's current funds do not again result in insufficient Surety (Fidelity) bond coverage on the relief association's authorized disbursing officer. 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: Compliance will be subject to verification through our next audit.

RELIEF ASSOCIATION OF THE KEMPTON FIRE COMPANY OF  
ALBANY TOWNSHIP, PA  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Charles J. McGarvey, Sr.**  
State Fire Commissioner

Relief Association of the Kempton Fire Company of Albany Township, PA Governing Body:

**Mr. Stephen Hamm**  
President

**Ms. Emily Wessner**  
Vice President

**Mr. Andrew Brett**  
Secretary

**Ms. Peggy Dewitt**  
Treasurer

RELIEF ASSOCIATION OF THE KEMPTON FIRE COMPANY OF  
ALBANY TOWNSHIP, PA  
REPORT DISTRIBUTION LIST

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report:

**Ms. Michele Morstatt**  
Secretary  
Albany Township

**Ms. Jane Werley**  
Secretary  
Greenwich Township

**Mr. Mark Sprow**  
Secretary  
Lenhartsville Borough

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).