

# 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, 2017 to December 31, 2018

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October 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
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) 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, 2018.

The objective of the audit was 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 objective identified above and was not required to be and was not 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 objective. 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 and the investment balance directly from the financial institution. Therefore, while the relief association provided bank and investment statements that indicated that, as of December 31, 2018, the relief association had a cash balance of \$55,342 and an investment balance with a fair value of \$50,762, we were not able to verify those cash and investment balances.

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, 2017 to December 31, 2018, 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 finding listed below and discussed later in this report.

Finding – Unsecured Loan

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with the management of the relief association and, where appropriate, their response has 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.

September 25, 2019



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 municipalities:

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>
Albany Township	Berks	\$14,476	\$13,178
Greenwich Township	Berks	\$10,080	\$ 9,185
Lenhartsville Borough	Berks	\$ 314	\$ 285

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

RELIEF ASSOCIATION OF THE KEMPTON FIRE COMPANY OF  
ALBANY TOWNSHIP, PA  
FINDING AND RECOMMENDATION

**Finding – Unsecured Loan**

Condition: On October 16, 2017, the relief association made an unsecured loan to the Kempton Fire Company in the amount of \$95,000.

Criteria: Section 7416(c)(3) of Act 118 requires that loans be:

. . . (i) secured by assets of the company having capital value equal to at least 150% of the amount of the obligation at the time it is made; (ii) subject to provisions which amortize the loan at a rate ensuring that the depreciated value of the assets pledged shall continue to be at least 150% of the balance due.

Cause: Relief association officials indicated that they were unaware that the loan to the fire company must be secured to ensure compliance with Act 118 provisions.

Effect: Failure to obtain adequate security for the loan places the investment at greater risk.

Recommendation: We recommend that the relief association officials and the fire company amend the written loan agreement to provide adequate security for the relief association's investment as required by Section 7416(c)(3) of Act 118. If such action is not taken, we recommend that the loan be immediately liquidated. 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, as a result of our audit, subsequent to the period under review, on September 4, 2019, the relief association complied with our recommendation and took the steps necessary to secure the loan made to the Kempton Fire Company.

Auditor's Conclusion: We reviewed documentation verifying there was adequate security for the relief association's loan to the affiliated fire company. Compliance for future loan security will be subject to verification through our next audit.

RELIEF ASSOCIATION OF THE KEMPTON FIRE COMPANY OF  
ALBANY TOWNSHIP, PA  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2018

Cash	\$	55,342
Fair Value of Investments		50,762
Book Value of Other Investments		<u>108,199</u>
Total Cash and Investments	\$	<u>214,303</u>



RELIEF ASSOCIATION OF THE KEMPTON FIRE COMPANY OF  
ALBANY TOWNSHIP, PA  
SUPPLEMENTARY FINANCIAL INFORMATION  
SUMMARY OF EXPENDITURES  
FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	<u>\$ 7,797</u>
Administrative Services:	
Other administrative expenses	\$ 1,495
Bond premiums	<u>500</u>
Total Administrative Services	<u>\$ 1,995</u>
Total Investments Purchased	<u>\$ 145,000</u>
Total Expenditures	<u><u>\$ 154,792</u></u>

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

Relief Association Of The Kempton Fire Company Of Albany Township, PA Governing Body:

**Mr. Stephen Hamm**  
President

**Mr. Brian Keller**  
Vice President

**Mr. Andrew Brett**  
Secretary

**Ms. Peggy Dewitt**  
Treasurer

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

**Ms. Monica Rabert**  
Secretary  
Albany Township

**Ms. Jane Werley**  
Secretary  
Greenwich Township

**Mr. Mark Sprow**  
Secretary  
Lenhartsville Borough

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

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