

COMPLIANCE AUDIT

Relief Association of the Union Fire Company No. 1 of Leesport, Pennsylvania Berks County For the Period January 1, 2017 to December 31, 2018

December 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. Dennis Heck, President
Relief Association of the Union
Fire Company No. 1 of Leesport,
Pennsylvania
Berks County

We have conducted a compliance audit of the Relief Association of the Union Fire Company No. 1 of Leesport, Pennsylvania (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 areas related to the objective identified above and was not conducted, nor was it required to be, 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 directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2018, the relief association had a cash balance of \$56,152, 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, 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. We, however, issued the below observation as detailed in the Observation section of this report.

Observation – Excessive Rental Fees Paid For Rental Space

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. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

November 25, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Observation:	
Observation – Excessive Rental Fees Paid For Rental Space.....	3
Supplementary Financial Information	4
Report Distribution List	6

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 therefore, the association officers 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>
Bern Township	Berks	\$ 7,004	\$ 6,393
Leesport Borough	Berks	\$10,480	\$ 9,550
Ontelaunee Township	Berks	\$17,799	\$16,315

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:

Union Fire Company No. 1 of Leesport

RELIEF ASSOCIATION OF THE UNION FIRE COMPANY NO. 1 OF LEESPORT,
PENNSYLVANIA
OBSERVATION

Observation – Excessive Rental Fees Paid For Rental Space

During our audit period, beginning July of 2017, the relief association paid a total of \$27,000, or \$1,500 per month, in rental fees to the affiliated fire company to store equipment owned by the relief association and for use of the fire company office and training room as needed. The rental agreement (Agreement) does not contain material information, such as the total square footage and other material terms. Failure to include the total square footage covered by the agreement results in an inability to assess the price per square foot paid by the relief association or compare it with other potentially more cost efficient options. Although Act 118 includes provisions for the payment of normal and reasonable running expenses as may be appropriate to the business conduct of a relief association's affairs, the amount of rent being paid to the fire company appears to be unreasonable since the amount of rental expenses totaled nearly 27% of the total disbursements of the relief association.

As stipulated in Act 118, the primary purpose of a volunteer firefighters' relief association is to afford financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. The payment, however, of rental expenses of this magnitude appears to be inconsistent with the intent of Act 118, which was enacted to ensure that funds shall be available for the protection of volunteer firefighters' and their heirs.

Since the relief association utilized nearly 56% of its 2018 annual income for rental expenses, it is questionable whether the relief association is meeting the intent of Act 118 and the needs of the volunteer firefighters. Furthermore, relief association officials were unable to provide the average rent per square foot in their geographic area to compare to the square footage presented by the fire company to substantiate the rental agreement.

The relief association officials should reevaluate the payment of rental fees to the fire company and determine if the amount of rental expense is appropriate, especially in light of the intent of Act 118 and the operating needs of the relief association. If rental fees are continued, the relief association should clearly document the amount of square footage lease rates for comparable storage rental fees being paid within the geographic area and ensure that any future rental fees paid to the fire company are based upon reasonable geographic market value rates and are otherwise authorized by Act 118. These material terms should be codified in future rental agreements. If expenditures are not authorized or otherwise properly meeting the purposes of Act 118, the same could be considered an unauthorized expenditure which could lead to a potential withhold of state aid. We will review this issue during our next audit for compliance with this observation.

RELIEF ASSOCIATION OF THE UNION FIRE COMPANY NO. 1 OF LEESPORT,
PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2018

Cash	<u>\$ 56,152</u>
------	------------------

RELIEF ASSOCIATION OF THE UNION FIRE COMPANY NO. 1 OF LEESPORT,
PENNSYLVANIA
SUPPLEMENTARY FINANCIAL INFORMATION
SUMMARY OF EXPENDITURES
FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 15,663
Fire Services:	
Equipment purchased	\$ 29,999
Equipment maintenance	18,436
Training expenses	3,344
Fire prevention materials	3,129
Total Fire Services	\$ 54,908
Administrative Services:	
Other administrative expenses*	\$ 27,840
Bond premiums	200
Total Administrative Services	\$ 28,040
Total Expenditures	\$ 98,611

*The relief association made monthly rental payments to the affiliated fire company in the amount of \$1,500. The total payments for the audit period totaled \$27,000. See observation for further details.

RELIEF ASSOCIATION OF THE UNION FIRE COMPANY NO. 1 OF LEESPORT,
PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Relief Association of the Union Fire Company No. 1 of Leesport, Pennsylvania Governing
Body:

Mr. Dennis Heck
President

Mr. Kenneth Quell
Vice President

Mr. Benjamin Miller
Secretary

Mr. Ronald Kessler
Treasurer

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

Ms. Diane DeJesus
Secretary
Bern Township

Ms. Sandra L. Weiser
Secretary
Leesport Borough

Ms. Kim Y. Berger
Secretary
Ontelaunee Township

RELIEF ASSOCIATION OF THE UNION FIRE COMPANY NO. 1 OF LEESPORT,
PENNSYLVANIA
REPORT DISTRIBUTION LIST

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.