

# COMPLIANCE AUDIT

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## Relief Association of the Community Fire Company of Virginville

Berks County, Pennsylvania

For the Period

January 1, 2014 to December 31, 2017

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July 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. Steve Kreisher, President  
Relief Association of the Community  
Fire Company of Virginville  
Berks County

We have conducted a compliance audit of the Relief Association of the Community Fire Company of Virginville (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, 2014 to December 31, 2017.

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.

Based on our audit procedures, we conclude that, because of the significance of the matters described in the findings below and discussed later in this report, the relief association did not, in all significant respects, comply 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, collectively as a whole, for the period January 1, 2014 to December 31, 2017. Therefore, the relief association may be subject to the potential withholding of its future state aid distribution, as discussed in the Potential Withhold of State Aid section of this report.

- Finding No. 1 – Undocumented Loans
- Finding No. 2 – Failure To Deposit State Aid
- Finding No. 3 – Untimely Deposit Of State Aid
- Finding No. 4 – Duplicate Payments
- Finding No. 5 – Failure To Maintain A Complete And Accurate Equipment Roster

The five findings contained in this report cite conditions that existed in the operation of the relief association 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 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 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.

July 6, 2018



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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Greenwich Township	Berks	\$ 5,230	\$ 4,935	\$ 4,911	\$ 4,901**
Lenhartsville Borough	Berks	\$ 349	\$ 341*	\$ 343 *	\$ 314 *
Perry Township	Berks	\$ 3,561	\$ 3,392	\$ 3,365	\$ 3,261**
Richmond Township	Berks	\$12,795	\$12,259	\$12,270	\$12,318**
Windsor Township	Berks	\$ 8,210	\$ 7,962	\$ 7,926	\$ 7,612**

\* The 2015, 2016, and 2017 state aid allocations from Lenhartsville Borough were not deposited into a relief association account as disclosed in Finding No. 2 in this report.

\*\* The 2017 state aid allocations were not deposited by the relief association until January 10, 2018 as disclosed in Finding No. 3 in this report.

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:

Community Fire Company of Virginville

RELIEF ASSOCIATION OF THE COMMUNITY FIRE COMPANY OF VIRGINVILLE  
FINDINGS AND RECOMMENDATIONS

**Finding No 1 – Undocumented Loans**

Condition: During the current audit period, the relief association provided five loans in the total amount of \$35,000 to the affiliated fire company without formal written loan agreements, as shown below:

Date of Loan	Loan Amounts	Interest Due	Payments Received	Balance Due as of 12/31/17
04/28/14	\$ 5,000	\$ 42	\$ (5,000)	\$ 42
08/29/14	5,000	525		5,525
04/15/15	5,000	303	(1,751)	3,552
07/24/16	15,000	689		15,689
08/08/17	5,000	75		5,075
	<u>\$ 35,000</u>	<u>\$ 1,634</u>	<u>\$ (6,751)</u>	<u>\$ 29,883</u>

Criteria: Act 118 at 35 Pa.C.S. § 7416(c)(3) states:

All, or any part of the funds of a volunteer firefighters’ relief association may be invested:

In any obligation of an incorporated fire company, provided that the obligation is: (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.

In addition, prudent business practice requires such terms of the obligation be placed into written loan agreements.

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

Effect: Failure to adequately document loans through formal written agreements places the investment at greater risk. Furthermore, the relief association’s future state aid allocations may be withheld until the finding recommendation is complied with.

RELIEF ASSOCIATION OF THE COMMUNITY FIRE COMPANY OF VIRGINVILLE  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that the relief association officials and fire company officials prepare formal written loan agreements, signed by both parties, specifying payment schedules and the interest rates. The loan agreements must also specifically identify the collateral to protect the investments as required by Act 118 at 35 Pa.C.S. § 7416(c)(3). If such action is not taken, we recommend that the loans 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 indicated they will take action to comply with the recommendation.

Auditor’s Conclusion: Due to the potential withhold of state aid, the relief association’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

**Finding No. 2 – Failure To Deposit State Aid**

Condition: The relief association did not deposit the 2015, 2016 and 2017 state aid distributed by Lenhartsville Borough, in the amounts of \$341, \$343, and \$314, respectively, into a relief association account. The foreign fire insurance tax allocations for 2015, 2016 and 2017 were distributed to the municipal treasurer on September 23, 2015, September 20, 2016 and September 25, 2017, respectively, who forwarded the state aid to the relief association on December 1, 2015, November 15, 2016, and in October of 2017, according to a borough official. Although Lenhartsville Borough prepared and returned a Certification Form AG 385 for 2017, the date the borough distributed the 2017 state aid to the relief association could not be determined because the borough failed to submit a Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this department as required by the instructions accompanying Form 706-B and the 2017 state aid allocation received by the borough disclosing this information.

Lenhartsville Borough is still required to submit a 2017 Receipt And Distribution Of Foreign Fire Insurance Premium Tax Form 706-B to this Department as soon as possible.



RELIEF ASSOCIATION OF THE COMMUNITY FIRE COMPANY OF VIRGINVILLE  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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 ensure the funds are deposited in a timely manner.

Cause: Relief association officials failed to establish internal control procedures to ensure that all state aid received is deposited into a relief association account.

Effect: As a result of the state aid not being deposited, the relief association was unable to use the funds for general operating expenses or for investment purposes. In addition, the failure to deposit receipts in a timely manner can lead to a greater risk that funds could be lost or misappropriated. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials immediately deposit the 2015, 2016 and 2017 state aid allocations it received from Lenhartsville Borough in the total amount of \$998. In addition, relief association officials should establish accounting and internal control procedures to ensure that all state aid is received in a timely manner and deposited into 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 indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Due to the potential withhold of state aid, the relief association's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the relief association.

RELIEF ASSOCIATION OF THE COMMUNITY FIRE COMPANY OF VIRGINVILLE  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Untimely Deposit Of State Aid**

Condition: The relief association did not deposit the 2017 state aid allocations it received in the total amount of \$28,092, until January 10, 2018. The foreign fire insurance tax allocation was distributed to the municipal treasurers on September 25, 2017, who forwarded the state aid to the relief association as shown in the table below, which is within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205); however, upon receipt of the state aid allocations, the relief association did not ensure the funds were deposited timely into a relief association account.

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2017	Greenwich Township	\$ 4,901	10/24/2017	01/10/2018
2017	Perry Township	\$ 3,261	10/10/2017	01/10/2018
2017	Richmond Township	\$ 12,318	10/09/2017	01/10/2018
2017	Windsor Township	\$ 7,612	10/11/2017	01/10/2018

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: Relief association officials failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner.

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

RELIEF ASSOCIATION OF THE COMMUNITY FIRE COMPANY OF VIRGINVILLE  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Recommendation: We recommend that the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. 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.

**Finding No. 4 – Duplicate Payment**

Condition: On March 11, 2014, the relief association expended \$186 to reimburse the affiliated fire company for batteries and training books initially paid for using the fire company's credit card. On April 8, 2014, the relief association erroneously made a duplicate payment to reimburse the fire company for the same expenditures.

In addition, the relief association expended \$250 on December 7, 2015 for their bond premium renewal which was paid directly to the insurance agency. On May 9, 2016, the relief association erroneously reimbursed the associated fire company who made a duplicate payment for the same bond premium renewal. As such, both of payments made on April 8, 2014, and May 9, 2016 to the fire company are considered unauthorized disbursements because no goods or services were received for the payment.

Criteria: Adequate accounting and internal control procedures should be implemented to prevent duplicate payment of invoices.

Cause: The relief association failed to establish adequate internal control procedures that require all invoices or other billing documents to be canceled or otherwise effectively marked to prevent duplicate payments.

Effect: As a result of these erroneous payments, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend that the relief association be reimbursed \$436 for the erroneous duplicate payments. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association expenditures. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

RELIEF ASSOCIATION OF THE COMMUNITY FIRE COMPANY OF VIRGINVILLE  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (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. 5 – 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), dates of purchase, cost of equipment and serial numbers 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 \$45,907 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.

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

Cause: Relief association officials 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.

RELIEF ASSOCIATION OF THE COMMUNITY FIRE COMPANY OF VIRGINVILLE  
FINDINGS AND RECOMMENDATIONS

**Finding No. 5 – (Continued)**

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 physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association equipment.

Recommendation: We 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: Compliance will be subject to verification through our next audit.

RELIEF ASSOCIATION OF THE COMMUNITY FIRE COMPANY OF VIRGINVILLE  
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 1 and 2 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action may not be considered if sufficient documentation is provided within 60 days to verify compliance with this department's recommendations. Such documentation should be submitted by the relief association to: Department of the Auditor General, Bureau of Fire Relief Audits, Room 327 Finance Building, Harrisburg, PA 17120.

RELIEF ASSOCIATION OF THE COMMUNITY FIRE COMPANY OF VIRGINVILLE  
SUPPLEMENTARY FINANCIAL INFORMATION  
CASH AND INVESTMENT BALANCES  
AS OF DECEMBER 31, 2017

Cash	\$	9,791
Book Value of Other Investments	\$	<u>29,883</u>
Total Cash and Investments	\$	<u><u>39,674</u></u>

RELIEF ASSOCIATION OF THE COMMUNITY FIRE COMPANY OF VIRGINVILLE  
 SUPPLEMENTARY FINANCIAL INFORMATION  
 SUMMARY OF EXPENDITURES  
 FOR THE PERIOD JANUARY 1, 2014 TO DECEMBER 31, 2017

Expenditures:

Benefit Services:	
Insurance premiums	\$ 17,634
Fire Services:	
Equipment purchased	\$ 45,907
Equipment maintenance	35,500
Training expenses	8,388
Fire prevention materials	230
Total Fire Services	\$ 90,025
Administrative Services:	
Other administrative expenses	\$ 2,344
Bond premiums	1,000
Total Administrative Services	\$ 3,344
Total Investments Purchased	\$ 35,000
Other Expenditures:	
Duplicate payments	\$ 436
Total Expenditures	\$ 146,439



RELIEF ASSOCIATION OF THE COMMUNITY FIRE COMPANY OF VIRGINVILLE  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

Relief Association of the Community Fire Company of Virginville Governing Body:

**Mr. Steve Kreisher**  
President

**Ms. Kelly Peter**  
Vice President

**Ms. Jody Detwiler**  
Secretary

**Mr. Elwood Wenrich**  
Treasurer

RELIEF ASSOCIATION OF THE COMMUNITY FIRE COMPANY OF VIRGINVILLE  
REPORT DISTRIBUTION LIST

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

**Ms. Jane Werley**  
Secretary  
Greenwich Township

**Mr. Mark R. Sprow**  
Secretary  
Lenhartsville Borough

**Ms. Lori Seidel**  
Secretary  
Perry Township

**Ms. Sharon D. Harrison**  
Secretary  
Richmond Township

**Mr. Craig A. Long**  
Secretary  
Windsor Township

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