

COMPLIANCE AUDIT

Community Fire Company of Frystown Relief Association

Berks County, Pennsylvania

For the Period

January 1, 2017 to December 31, 2020

April 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

James Fox, President
Community Fire Company of Frystown
Relief Association
Berks County

We have conducted a compliance audit of the Community Fire Company of Frystown 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, 2020.

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, 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 objective. 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 copies of bank statements that indicated that, as of December 31, 2020, the relief association had a cash balance of \$19,716, we were not able to verify this cash balance.

Based on our audit procedures, we conclude that, because of the significance of the matters described in Finding Nos. 1 and 2 below and discussed later in this report and the effects, if any, of the matter described in the preceding paragraph, 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, 2017 to December 31, 2020. 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 Expenditures

Finding No. 2 – Failure To Deposit State Aid

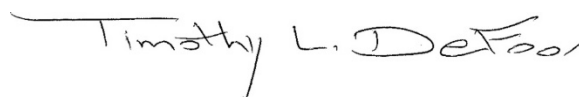
Finding No. 3 – Failure To Maintain Minutes Of Meetings

Finding No. 4 – Inadequate Financial Record-Keeping System

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 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

March 9, 2021

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Undocumented Expenditures	4
Finding No. 2 – Failure To Deposit State Aid	6
Finding No. 3 – Failure To Maintain Minutes Of Meetings	7
Finding No. 4 – Inadequate Financial Record-Keeping System.....	8
Finding No. 5 – Failure To Maintain A Complete And Accurate Equipment Roster.....	9
Potential Withhold of State Aid.....	11
Report Distribution List	12

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.

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

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Bethel Township	Berks	\$13,367	\$12,378	\$16,181*	\$16,732

* The 2019 state aid allocation received from Bethel Township was not deposited by the relief association as disclosed in Finding No. 2 in this report.

BACKGROUND – (Continued)

Based on the relief association’s records, its total cash as of December 31, 2020 was \$19,716, as illustrated below:

Cash	<u>\$ 19,716</u>
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Based on the relief association’s records, its total expenditures for the period January 1, 2017 to December 31, 2020 were \$40,800, 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	<u>\$ 1,281</u>
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Fire Services:

Equipment purchased	\$ 10,745
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Equipment maintenance	<u>5,378</u>
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Total Fire Services	<u>\$ 16,123</u>
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Administrative Services:

Other administrative expenses	\$ 12
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Bond premiums	<u>750</u>
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Total Administrative Services	<u>\$ 762</u>
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Other Expenditures:

Miscellaneous*	\$ 4,000
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Undocumented expenditures	<u>18,634</u>
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Total Other Expenditures	<u>\$ 22,634</u>
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Total Expenditures	<u><u>\$ 40,800</u></u>
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* The miscellaneous expenditure represents two \$2,000 short term loans to the affiliated fire company made during 2018 and both short term loans were paid back with interest in November of 2018.

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:

Community Fire Company of Frystown

COMMUNITY FIRE COMPANY OF FRYSTOWN RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Expenditures

Condition: The relief association was unable to provide adequate supporting documentation for the following expenditures made during the current audit period:

Date	Check No.	Payee Description	Amount
01/03/2017	1015	Equipment vendor	\$ 520
02/04/2017	1017	Unaffiliated fire company	5,000
02/14/2017	1018	Equipment vendor	1,447
03/28/2017	1021	Training vendor	36
04/20/2017	1024	Equipment vendor	73
04/20/2017	1025	Maintenance vendor	60
04/20/2017	1026	Equipment vendor	55
05/22/2017	1029	Administrative vendor	72
06/13/2017	1031	Maintenance vendor	179
07/10/2017	1032	Equipment vendor	242
07/19/2017	1035	Administrative vendor	55
02/27/2018	1044	Equipment vendor	3,007
03/06/2018	1047	Equipment vendor	618
03/10/2018	1048	Relief association member	600
09/04/2018	1050	Equipment vendor	860
09/04/2018	1063	Relief association member	168
09/04/2018	1064	Training vendor	1,075
09/21/2018	1065	Training vendor	250
10/09/2018	1066	Relief association member	135
10/23/2018	1070	Training vendor	910
11/03/2018	1071	Relief association member	1,077
11/13/2018	1073	Relief association member	103
12/14/2018	1076	Equipment vendor	1,021
12/17/2018	1078	Relief association member	495
01/08/2019	1082	Relief association member	121
03/05/2019	1088	Relief association member	455
Total			<u>\$ 18,634</u>

COMMUNITY FIRE COMPANY OF FRYSTOWN RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: Section 7418(a) of Act 118 states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Prudent business practice dictates that supporting documentation be maintained to evidence the propriety of all financial transactions.

Cause: The relief association officials indicated that the prior relief association officers did not leave any records, including invoices, for the audit period under review. All invoices that the current treasurer was able to obtain directly from the vendors were forwarded to the auditor.

Effect: Lack of supporting documentation, such as invoices, itemized receipts and detailed minutes of meetings, made it impossible to determine if the expenditures were made in accordance with Section 7416(f) of Act 118. In addition, the failure to maintain adequate supporting documentation for relief association expenditures can lead to an increased risk of errors occurring and funds being 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 provide this department with adequate supporting documentation, such as invoices and/or itemized receipts, to ensure the propriety of the expenditures or that the relief association be reimbursed \$18,634 for the undocumented expenditures. We also recommend that the relief association officials maintain supporting documentation for all future expenditures. 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.

COMMUNITY FIRE COMPANY OF FRYSTOWN RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Deposit State Aid

Condition: The relief association did not deposit the 2019 state aid distributed by Bethel Township, in the amount of \$16,181, into a relief association account. The foreign fire insurance tax allocation was distributed to the municipal treasurer on September 16, 2019, who forwarded this state aid to the relief association on September 18, 2019, 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).

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: The relief association officials indicated the allocation was deposited into an account owned by the affiliated fire company. The fire company spent the funds and did not return the money to the relief association.

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 receive the \$16,181 in state aid funds from the affiliated fire company and deposit the state aid allocation into a relief association account. 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.

COMMUNITY FIRE COMPANY OF FRYSTOWN 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: 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. 3 – Failure To Maintain Minutes Of Meetings

Condition: The relief association did not maintain minutes of meetings for the years 2017 through 2019 as required by Act 118 and the relief association's bylaws. There were also only two meeting minutes provided during 2020. In addition, the meeting minutes provided were not signed and dated by the secretary of the relief association and attendance was not kept to provide evidence that the quorum was met.

Criteria: Section 7415(a) of Act 118 states, in part, that the relief association:

. . . must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, the relief association's bylaws at Article II states, in part:

The regular meeting of the Association shall be held on the evening of the first Wednesday of each month during the year immediately following the regular meeting of the Community Fire Company of Frystown.

Five members shall constitute a quorum, the majority of those convened shall govern.

Cause: The relief association officials indicated that the prior officers did not leave a minute book for the audit period under review. The relief association officials did not provide reasons for why the minutes in 2020 were not signed and dated and why the attendance was not kept for quorum requirements.

Effect: Without detailed minutes of meetings, evidence that relief association business was presented before the membership for approval does not exist.

COMMUNITY FIRE COMPANY OF FRYSTOWN RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the relief association officials maintain a permanent record of all relief association meetings as required by Act 118 and the relief association’s bylaws. The minutes should include an adequate record of all financial-related business conducted by the relief association, include a signature and date from the recording secretary and follow quorum requirements. 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 – Inadequate Financial Record-Keeping System

Condition: The relief association’s financial record-keeping system did not establish adequate accounting procedures to allow the membership to effectively monitor the relief association’s financial operations. The following are the noted deficiencies:

- A journal was not maintained to record the receipts and disbursements of the relief association.
- Ledgers were not utilized to record the transactions of the relief association accounts.
- Documentation to support various expenditures was not available for examination at the time of the audit. Refer to Finding No. 1.

Criteria: Section 7415(a) of Act 118 states:

A volunteer firefighters’ relief association may be a body corporate, governed by a charter and bylaws or an unincorporated association of individuals governed by bylaws and a constitution. In either case, it must provide for taking and preserving minutes of all meetings and maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its fiscal affairs.

In addition, an adequate system of accounting and record-keeping is a prerequisite for sound administration of relief association assets.

Cause: Relief association officials indicated that the prior officers did not leave any records, including journals, ledgers, and bank statements, for the period under review.

COMMUNITY FIRE COMPANY OF FRYSTOWN RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Effect: The failure of relief association officials to maintain adequate records prohibits the membership from effectively monitoring the relief association's financial operations.

Recommendation: We recommend that the relief association officials establish and maintain a financial record-keeping system that allows the membership to effectively monitor the relief association's financial operations. 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. 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. Specifically, the relief association purchased \$10,745 of equipment during the current audit period and there was no equipment roster created or maintained for these purchases. 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

COMMUNITY FIRE COMPANY OF FRYSTOWN RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Cause: The relief association officials indicated that the prior officers did not leave any records, including an equipment roster.

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.

COMMUNITY FIRE COMPANY OF FRYSTOWN RELIEF ASSOCIATION
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.

COMMUNITY FIRE COMPANY OF FRYSTOWN RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Community Fire Company of Frystown Relief Association Governing Body:

Mr. James Fox
President

Mr. David Omstead
Vice President

Ms. Ashley Bissinger
Secretary

Ms. Alicia Moyer
Treasurer

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

Ms. Jayne K. Seifrit
Secretary
Bethel 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.