



City of Reading

Fire Escrow Proceeds Audit

Year Ending December 31, 2020

Internal Audit Report

Objective

Determine if the City of Reading's Fire Escrow Proceeds account activities adhered to applicable ordinance as written.

Scope

The timeframe of the Fire Escrow Proceeds activities under review was from January 1, 2020 through December 31, 2020.

Items reviewed included: Ordinance Bill No. 6-95, Bill No. 32,-2013, cash receipts, disbursements, fire escrow insurance payment schedule, and applicable general ledger posting.

Methodology

Internal Audit reviewed all Fire Escrow Proceeds transactions. Due to the sensitive nature of this area of review, Internal Audit tested for 100% compliance.

To achieve our objectives, Internal Audit performed audit procedures by obtaining and reviewing the following:

- Listed in the ordinance, Bill No. 6-95, "The Insurer shall transfer from the insurance Proceeds to the Municipal Office the aggregate of \$2,000.00 for each \$15,000.00 of a claim", in this case to the City of Reading.
- Per Bill NO.32,-2013, "The City of Reading may by Ordinance fix reasonable fees to be charged for municipal activities and services provided pursuant to this part; including but not limited to, issuance of certificates and bills, performance of inspections and opening separate fund accounts".

Audit Results

During the month of May, an audit was completed for the Fire Escrow account from January 01, 2020 through December 31, 2020, part of this audit was also to reconcile Fire Escrow cash receipts and disbursements. The data needed for this audit was provided by the Treasurer Manager who is responsible to maintain a log with all necessary information for each property of which the proceeds are received. These proceeds are received from the Fire Escrow Insurance and it appears to have been historically deposited into the Fire Escrow Account under fund 31 which are used as a "security against the local cost of removing, repair, or securing the building". The data received has been reviewed and analyzed by the City Auditor which tie to the Trial Balance obtained by the City Controller. The liability ending balance of the Fire Escrow Account as of 12/31/2020, is \$766,833.44. **See Table 1 below.**

Fire Escrow Balance as of December 31, 2020. Table 1

Balance as of 12/31/2019	729,907.01
2020 Proceeds	142,388.83
2020 Reimbursements	<u>(105,412.40)</u>
Total	\$766,883.44

The majority of all the proceeds received during the years of 2013, 2015, 2016, 2017, 2018, 2019, and 2020 have not been disbursed, and this has originated a significantly increase to the liability, see Fire Escrow Liability Aging per year, **see Table 2 below**. Although, a total of \$105,412.40 was reimbursed during the fiscal year of 2020, the City still has a greater liability by \$36,976.43 compared to the 2019 liability. This liability has been recorded in fund 31, which is in compliance with Bill NO. 32,-2013. The list attached is showing the details the name of the owner, the parcel #, the address of the property and the dates/amounts of when these proceeds were received; also the total liability that the City has as of December 31, 2020.

Fire Escrow Liability Aging – Table 2

Years of Receipts Aging	12/31/19 Balance	Current Year Receipts	Current Year Payments	12/31/20 Balance	% as of 12/31/20
2010 & Prior	212,536.85		(42,594.83)	169,942.02	22.2%
2011-2015	192,931.93		0.00	192,931.93	25.1%
2016	87,153.00		0.00	87,153.00	11.4%
2017	60,707.77		(10,368.66)	50,339.11	6.6%
2018	65,452.08		(4,600.00)	60,852.08	7.9%
2019	111,125.38		(37,565.09)	73,560.29	9.6%
2020	0.00	142,388.83	(10,283.82)	132,105.01	17.2%
TOTALS	729,907.01	142,388.83	(105,412.40)	766,883.44	100.0%

Recommendations

- Due to the liability increase throughout the years, the Administration should implement a plan on how to enhance the effectiveness of the Fire Escrow proceeds disbursement process in order to reduce this liability.

Department of Finance response

- The current fire escrow process is working in an efficient and effective manner, however that does not help the sizeable liability that has accrued prior to the treasury office staff being in place.
- The most effective way to remove a large part of the outstanding liability would be for Council to authorize an amnesty program that allows suspension of the requirement that

remediation work be performed on the impacted property [certified by City Trades office] before we release the escrow funds. This will create dispensation for us to release escrow for properties that have not completed the work and are not currently seeking the proceeds that are sitting on our books. During the “amnesty period” property owners would be allowed to seek release of funds. After the end of the amnesty period we would “write off” the remaining liability and send it to the Unclaimed Property Bureau at the Commonwealth Department of Revenue.