



# **City of Reading**

## **Fire Escrow Proceeds Audit**

**Year Ending December 31, 2021**

### **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, 2021 through December 31, 2021.

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

## **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 of the current year, an audit was completed for the Fire Escrow account from January 01, 2021 through December 31, 2021. And 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 is 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 and tied to the Trial Balance completed by the City Controller. The liability ending balance of the Fire Escrow Account as of 12/31/2021 is \$755,427.45. (See **Table 1** below.)

### Fire Escrow Balance as of December 31, 2021 - Table 1

Balance as of 12/31/2020	766,883.44
2021 Proceeds	199,837.33
2021 Disbursements	<u>(211,293.32)</u>
<b>Balance as of 12/31/2021</b>	<b>\$755,427.45</b>

During the fiscal year of 2021, a total of \$211,293.32 was disbursed. And even though the liability in the Fire Escrow account decreased by \$11,455.99 in 2021 compared to 2020, the balance of \$755,427.45 in this account is still significant (see Fire Escrow Liability Aging per year in **Table 2** below). This liability has been recorded in Fund 31, which is in compliance with Bill No. 32-2013.

### Fire Escrow Liability Aging through December 31, 2021 - Table 2

Years of Receipts Aging	Proceeds	2021 Disbursements	Balance	%
<b>2010 &amp; Prior</b>	<b>169,942.02</b>	-	169,942.02	22.49%
<b>2011-2015</b>	<b>192,931.93</b>	<b>(54,773.33)</b>	138,158.60	18.29%
<b>2016</b>	<b>87,153.00</b>	-	87,153.00	11.54%
<b>2017</b>	<b>50,339.11</b>	<b>(9,333.33)</b>	41,005.78	5.43%
<b>2018</b>	<b>60,852.08</b>	<b>(34,000.00)</b>	26,852.08	3.55%
<b>2019</b>	<b>73,560.29</b>	-	73,560.29	9.74%
<b>2020</b>	<b>132,105.01</b>	<b>(91,020.00)</b>	41,085.01	5.44%
<b>2021</b>	<b>199,837.33</b>	<b>(22,166.66)</b>	177,670.67	23.52%
<b>TOTALS</b>	<b>766,883.44</b>	<b>(211,293.32)</b>	<b>755,427.45</b>	<b>100.00%</b>

The attached spreadsheet shows the details including: owner names, the parcel #, property addresses and the dates/amounts of when respective proceeds were received and disbursed, and the total liability that the City has as of December 31, 2021.

### **Recommendations**

- The Administration should implement a plan to enhance the effectiveness of the Fire Escrow proceeds in order to reduce this liability.

### **City Auditor's Comments**

- As a result, the Fire Escrow Account has a balance of \$755,427.45 as of December 31, 2021.

### **Department of Finance Response**