

COMPLIANCE AUDIT

Portland Hook & Ladder Co. #1 Fireman's Relief Association Northampton County, Pennsylvania For the Period January 1, 2021, to December 31, 2023

September 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Robert Shoemaker, President
Portland Hook & Ladder Co. #1 Fireman's
Relief Association
Northampton County

We have conducted a compliance audit of the Portland Hook & Ladder Co. #1 Fireman's Relief Association (relief association) for the period January 1, 2021, to December 31, 2023. The audit was conducted pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania; Section 403 of The Fiscal Code, 72 P.S. § 403; and the Volunteer Firefighters' Relief Association Act ("VFRA Act"), see 35 Pa.C.S. § 7418.

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.

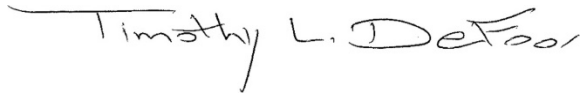
Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief association funds complies with applicable state laws, contracts, bylaws, and administrative 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, for the period January 1, 2021, to December 31, 2023, 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, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Finding No. 2 – Inadequate Minutes Of Meetings And Relief Association Bylaws

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
August 27, 2024

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BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code¹, and the Volunteer Firefighters' Relief Association Act² ("VFRA Act"), 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 Law³ (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.

The VFRA Act 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, the VFRA Act authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by the VFRA Act, 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 relief association officers therefore have a responsibility to the public to conduct the relief association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all relief association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the relief 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.

¹ 72 P.S. § 403 (as last amended by Act 44 of 2017).

² 35 Pa.C.S. § 7411 *et seq.* See specifically, 35 Pa.C.S. § 7418 (amended by Act 91 of 2020).

³ 53 P.S. § 895.701 *et seq.* (Act 205 of 1984, as amended by Act 119 of 1990).

BACKGROUND – (Continued)

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

| <u>Municipality</u> | <u>County</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|---------------------|---------------|-------------|-------------|-------------|
| Portland Borough | Northampton | \$2,590 | \$3,084 | \$3,158 |

Based on the relief association’s records, its total cash as of December 31, 2023, was \$15,684, as illustrated below:

| | |
|------|------------------|
| Cash | <u>\$ 15,684</u> |
|------|------------------|

Based on the relief association’s records, its total expenditures for the period January 1, 2021, to December 31, 2023, were \$7,703, 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.⁴ **The scope of the Department’s audit does not include the issuance of an opinion on the accuracy of these amounts.**

Expenditures:

Fire Services:

Equipment purchased \$ 7,453

Administrative Services:

Bond premiums \$ 250

Total Expenditures \$ 7,703

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:

Portland Hook and Ladder Co. #1

⁴ Accuracy was evaluated for a selection of transactions based on dollar amount, category, and/or random selection.

PORTLAND HOOK & LADDER CO. #1 FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Condition: On May 16, 2021, the relief association expended \$6,703 on a lighting package for a fire company owned vehicle without properly securing its ownership interest.

Criteria: Section 7418(a) of the VFRA Act 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 the relief association should secure its proportional ownership interest in the vehicle that has equipment purchased by the relief association by executing a formal written agreement that enumerates the relief association's proportional share of the cost of the vehicle. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the vehicle, in the event the vehicle is ever sold.

Cause: The relief association officials stated that an agreement was initially not created between the relief association and their affiliated fire company due to an oversight.

Effect: The failure to adequately secure the proportional share of ownership interest in the vehicle for which relief association purchased equipment and was installed places the relief association's ownership interest at greater risk.

Recommendation: We recommend that the relief association officials execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the vehicle as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the vehicle is ever sold. If such action is not taken, we recommend that the relief association be reimbursed \$6,703. 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 subsequent to the period under review, and as a result of our audit, on May 21, 2024, the relief association provided an ownership agreement stipulating that the proportionate proceeds of the sale shall revert to the relief association in the event the vehicle is ever sold.

PORTLAND HOOK & LADDER CO. #1 FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Auditor's Conclusion: We reviewed the documentation verifying an ownership agreement between the relief association and the affiliated fire company for the jointly purchased equipment. Compliance for ownership agreements related to equipment purchases made during the next audit period will be subject to verification through our next audit.

Finding No. 2 – Inadequate Minutes Of Meetings And Relief Association Bylaws

Condition: The relief association failed to maintain detailed minutes of meetings as required by the VFRA Act. Specifically, meetings were only held in one month during calendar year 2022 and for two months during calendar year 2023. In addition, the relief association's minutes were not signed and dated by the recording officer. Furthermore, the existing bylaws of the relief association contains language to conduct business pertaining to the disbursement, investment, and purchase of funds that is based on Act 84 of June 11, 1968. The relief association has not updated the bylaws to govern their organization to meet the requirements set forth in the VFRA Act.

Criteria: Section 7415(a) of the VFRA Act 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.

The relief association's bylaws at Article II, Section 1 states, in part:

Regular meetings of this association shall be held quarterly on the 1st Wednesday of each month preceding the regular meeting of the PH&L Co. #1.

In addition, the relief association's bylaws at Article V, Section 1 states, in part:

Funds of this association shall not be expended for any purpose other than those authorized by the provisions of Act 84 and the association by-laws.

Furthermore, the relief association's bylaws at Article VI, Section 1 states, in part:

Funds of this association may be invested in any security authorized by the provisions of Section 6 (c) Act 84.

PORTLAND HOOK & LADDER CO. #1 FIREMAN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Prudent business practice dictates that the relief association updates and maintains its bylaws to reflect the current requirements of the VFRA Act and should ensure that meeting minutes are signed and dated.

Cause: The relief association officials indicated the secretary was unaware of the requirement to sign and date minutes. The relief association officials did not provide a reason why all required meetings were not held or why the bylaws were not updated to meet the requirements of the VFRA Act.

Effect: Without holding regular meetings that are signed and dated, evidence that relief association business was presented before the membership for approval does not exist. As a result of the relief association not updating the bylaws to meet the appropriate requirements, the relief association may have conducted its affairs without proper authorization.

Recommendation: We recommend that the relief association officials hold all required meetings as required by the VFRA Act and the relief association's bylaws, evidencing the discussion and approval of all financial-related business conducted by the relief association. We also recommend that the relief association officials ensure that all meeting minutes are signed and dated by the Secretary of the Relief Association to ensure the validity of the meeting minutes. In addition, we recommend that the relief association officials remove the language referring to Act 84 by updating the bylaws governing their organization so that the bylaws meet the requirements set forth in the VFRA Act. 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.

PORTLAND HOOK & LADDER CO. #1 FIREMAN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Portland Hook & Ladder Co. #1 Fireman's Relief Association Governing Body:

Mr. Robert Shoemaker
President

Mr. Michael Sullivan
Vice President

Mr. Ian Kelton
Secretary

Mr. James Potter
Treasurer

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

Ms. Lori Sliker
Secretary
Portland Borough

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.