

COMPLIANCE AUDIT

The North Bangor Firemen's Relief Association of Upper Mount Bethel Township, Northampton County, Pennsylvania

For the Period
January 1, 2019, to December 31, 2021

February 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Mr. Donald Black, President
The North Bangor Firemen's Relief
Association of Upper Mount Bethel
Township, Northampton County,
Pennsylvania

We have conducted a compliance audit of The North Bangor Firemen's Relief Association of Upper Mount Bethel Township, Northampton County, Pennsylvania (relief association) for the period January 1, 2019, to December 31, 2021. 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 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 an independent confirmation of the cash balance and the investment balance directly from the financial institution. Therefore, while the relief association provided copies of bank statements that indicated that, as of December 31, 2021, the relief association had a cash balance of \$41,431 and an investment balance with a fair value of \$31,744, we were not able to verify those cash and investment balances.

We were also not able to examine original invoices. The relief association officials paid bills by disbursing checks to the vendors with the original invoices. Copies of the invoices were made available for the audit. The relief association was informed that prudent business practice is to retain original invoices.

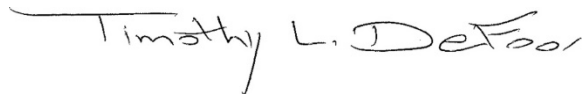
Based on our audit procedures, we conclude that, because of the significance of the matters described in Finding No. 1 below and discussed later in this report and the effects, if any, of the matters described in the two preceding paragraphs, the relief association did not, in all significant respects, 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, 2019, to December 31, 2021. 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 – Inappropriate Ownership Of An ATV

Finding No. 2 – Failure To Maintain A Pennsylvania Sales Tax Exemption Number

Finding No. 3 – Failure To Maintain A Complete And Accurate Equipment Roster

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
December 22, 2022

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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 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.

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>2019</u>	<u>2020</u>	<u>2021</u>
Upper Mount Bethel Township	Northampton	\$22,849	\$22,900	\$20,200

Based on the relief association's records, its total cash and investments as of December 31, 2021, were \$102,487, as illustrated below:

Cash	\$ 41,431
Fair Value of Investments	31,744
Book Value of Other Investments	<u>29,312</u>
Total Cash and Investments	<u>\$ 102,487</u>

BACKGROUND – (Continued)

Based on the relief association’s records, its total expenditures for the period January 1, 2019, to December 31, 2021, were \$110,116, 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:

Benefit Services:	
Insurance premiums	\$ 6,360
Fire Services:	
Equipment purchased	\$ 55,887
Equipment maintenance	4,395
Training expenses	400
Total Fire Services	<u>\$ 60,682</u>
Administrative Services:	
Bond premiums	\$ 1,562
Other administrative expenses *	3,486
Total Administrative Services	<u>\$ 5,048</u>
Total Investments Purchased	<u>\$ 15,000</u>
Other Expenditures:	
Payments on lease-financing	\$ 23,005
Payment of Pennsylvania sales tax **	21
Total Other Expenditures	<u>\$ 23,026</u>
Total Expenditures	<u><u>\$ 110,116</u></u>

* A majority of the other administrative expenses represent \$3,370 expended in the 2021 audit period for members’ call and text messaging service and website listing and marketing fee.

** During calendar year 2019, the relief association made a \$21 disbursement for the payment of sales tax on an equipment maintenance expenditure that was not authorized under the VFRA Act. We disclosed this issue to the relief association officials on November 4, 2022. This relatively small dollar amount was noted in Finding No. 5 of this report, concerning the failure to maintain a Pennsylvania sales tax exemption number.

⁴ 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:

North Bangor Fire Company

THE NORTH BANGOR FIREMEN'S RELIEF ASSOCIATION OF UPPER MOUNT
BETHEL TOWNSHIP, NORTHAMPTON COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inappropriate Ownership Of An ATV

Condition: On November 14, 2017, the relief association purchased an ATV (rescue vehicle) in the amount of \$16,074 to carry personnel and safeguard equipment; however, a request for title was not made. Rescue vehicles are used to transport personnel, safeguard equipment and to transport and provide specialized equipment for rescue purposes. In addition, at the time of our audit, relief officials did not provide documentation of insurance coverage for the ATV.

Criteria: Prudent business practice dictates that the relief association should maintain sole ownership of all equipment purchased by the relief association. As such, rescue vehicles such as ATVs purchased for fire safety rescue purposes by a relief association, are to be titled in the name of the relief association. In addition, relief officials should maintain proof of insurance for the vehicle. Further, Pennsylvania's Department of Conservation and Natural Resources (DCNR) indicates on its website that all ATVs in Pennsylvania must have a title issued by DCNR. Exceptions noted include:

- ATVs registered with DCNR prior to February 12, 1987 – these ATVs do not require a title until they are sold by the owner
- ATVs used exclusively as utility vehicles for agricultural or business purposes
- ATVs owned and used by a federal, state, or local government body
- ATVs owned by a dealer before and until sale
- ATVs owned by a nonresident
- ATVs owned by a Pennsylvania resident, but registered and used in another state

The relief association does not meet the qualifications for any of the above noted exceptions.

Section 7415. Structure (a) General Rule of the VFRA Act, in part, 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.

Cause: The relief association officials did not provide a reason why this occurred. Further, relief officials were working on confirming what insurance was in place for the ATV; however, they were unable to provide evidence of proof of insurance on the vehicle prior to the release of the audit report.

THE NORTH BANGOR FIREMEN'S RELIEF ASSOCIATION OF UPPER MOUNT
BETHEL TOWNSHIP, NORTHAMPTON COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As a result of the ATV not being titled, this relief association asset was not properly safeguarded. In addition, if insurance is not in place, the relief association may not be properly protected in the event of bodily injury or property damage. Furthermore, future the state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the rescue vehicle be titled in the name of the relief association. If such action is not taken, we recommend that the relief association be reimbursed \$16,074. In addition, relief association officials should ensure that proper insurance is in place on the vehicle. 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 Maintain A Pennsylvania Sales Tax Exemption Number

Condition: The relief association failed to maintain a Pennsylvania sales tax exemption number. Although the relief association did have its own sales tax exemption number, it expired on September 30, 2010, and is no longer valid. Furthermore, due to not maintaining a valid Pennsylvania sales tax exemption number, the relief association was forced to pay \$21 on an equipment maintenance expenditure during the current audit period.

Criteria: Section 7415(e) of the VFRA Act states:

A volunteer firefighters' relief association organized or conducted in accordance with the requirements of this section shall be regarded as a charitable corporation for all purposes, including the right to establish exemption from the operation of certain taxes.

THE NORTH BANGOR FIREMEN'S RELIEF ASSOCIATION OF UPPER MOUNT
BETHEL TOWNSHIP, NORTHAMPTON COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: The relief association officials did not provide a reason why this occurred despite the relief association being notified of this condition through a verbal observation during our prior audit.

Effect: As a result of the relief association's failure to maintain a sales tax exemption number, the relief association was required and may in the future be required to pay Pennsylvania sales tax on their purchases, which ultimately reduces the funds otherwise available for general operating expenditures or for investment purposes.

Recommendation: We recommend that the relief association officials immediately reapply for a new state sales tax exemption number from the Department of Revenue and furnish this exemption number to all vendors from whom the relief association purchases equipment. Furthermore, after obtaining a new state sales tax exemption number, the relief association should apply for a refund for the paid sales tax from the Department of Revenue. 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. 3 – 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 cost of equipment, locations 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 \$55,887 was recorded. In addition, items purchased before January 1, 2017, were not documented. Finally, 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.

THE NORTH BANGOR FIREMEN'S RELIEF ASSOCIATION OF UPPER MOUNT
BETHEL TOWNSHIP, NORTHAMPTON COUNTY, PENNSYLVANIA
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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: The relief association officials stated the missing information was caused by an oversight on the part of the association.

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.

THE NORTH BANGOR FIREMEN'S RELIEF ASSOCIATION OF UPPER MOUNT
BETHEL TOWNSHIP, NORTHAMPTON COUNTY, PENNSYLVANIA
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is 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 316E Finance Building, Harrisburg, PA 17120.

THE NORTH BANGOR FIREMEN'S RELIEF ASSOCIATION OF UPPER MOUNT
BETHEL TOWNSHIP, NORTHAMPTON COUNTY, PENNSYLVANIA
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The North Bangor Firemen's Relief Association of Upper Mount Bethel Township, Northampton
County, Pennsylvania Governing Body:

Mr. Donald Black
President

Mr. Jeremy Miller
Secretary

Mr. Todd Pinto
Treasurer

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

Ms. Cindy Beck
Secretary
Upper Mount 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.