



**VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH OF  
DUNMORE**

**HEREIN REFERRED TO AS:**

**DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION**

**LACKAWANNA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006 TO DECEMBER 31, 2008**



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## 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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), 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 Dunmore Volunteer Firefighters' 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 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws define the specific operational procedures by which the volunteer firefighters' relief association conducts business. To fulfill its primary purpose, Act 84 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 84, it is the responsibility of the volunteer firefighters' relief association 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, which is or are recognized as providing the service to the municipality. The Dunmore Volunteer Firefighters' Relief Association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Dunmore Borough	Lackawanna	\$23,596	\$23,446	\$4,220

BACKGROUND (Continued)

The volunteer firefighters' relief association and the affiliated fire service organizations are separate, legal entities. The Dunmore Volunteer Firefighters' Relief Association is affiliated with the following fire service organizations:

Eclipse Hose Company  
Electric Hose Company  
Independent Hose Company  
Neptune Hose Company

Mr. Benjamin F. Mastro, President  
DUNMORE VOLUNTEER FIREFIGHTERS'  
RELIEF ASSOCIATION  
Lackawanna County

We have conducted a compliance audit of the Dunmore Volunteer Firefighters' 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, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), for the period January 1, 2006 to December 31, 2008.

We conducted this compliance audit in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objective.

The objective of the audit was to determine if the volunteer firefighters' relief association received and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws and administrative procedures.

Our audit was limited to the areas related to the objective identified above.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Dunmore Volunteer Firefighters' Relief Association's administration of state aid and accumulated funds complies with applicable state laws, contracts, bylaws and administrative procedures including the safeguarding of assets. In conducting our audit, we obtained an understanding of the volunteer firefighters' relief association's internal controls as they relate to the association's compliance with those requirements and that we considered to be significant within the context of the audit objective, and assessed whether those significant controls were properly designed and implemented. Our audit procedures also included tests of documentary evidence supporting the

Dunmore Volunteer Firefighters' Relief Association's recorded financial transactions, tests of the physical existence of inventories, interviews of selected officials and direct confirmation of the Dunmore Volunteer Firefighters' Relief Association's cash, investments, and certain other assets and liabilities as of December 31, 2008, with the custodians of the funds, debtors, creditors, and financial institutions to the extent necessary to satisfy the audit objective. Additionally, we performed procedures to provide a reasonable assurance of detecting instances of violations of legal and regulatory requirements or violations of provisions of contracts that are significant within the context of the audit objective.

The results of our audit for the period January 1, 2006 to December 31, 2008, found, in all significant respects, the Dunmore Volunteer Firefighters' Relief Association received and expended funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following finding discussed later in this report. The results of our tests indicated the Dunmore Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2008, had a cash balance of \$4,732 and an investment balance with a fair value of \$1,948,053.

Finding – Inadequate and Inconsistent Documentation of Methodology Used  
in Certification of Volunteer Fire Protection Services

We also noted another matter that has been included in the following observation discussed later in this report.

Observation – Diversification of Investments

The contents of this report were discussed with the management of the Dunmore Volunteer Firefighters' Relief Association and, where appropriate, their responses have been included in the report.

January 28, 2010

JACK WAGNER  
Auditor General

DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – Inadequate and Inconsistent Documentation of Methodology Used in Certification of  
Volunteer Fire Protection Services

Condition: For years 2005 to 2008 and for the subsequent year of 2009, there was inadequate documentation to support the methodology used in the Borough of Dunmore's certification, on Form AG-385, of the percentage of volunteer fire protection services provided to the borough by the volunteer firefighters affiliated with the Dunmore Volunteer Firefighters' Relief Association. In addition, the criteria outlined by the borough solicitor and approved by the Department of Community and Economic Development (DCED) for determining who qualifies as a certifiable volunteer firefighter for purposes of calculating the percentage of volunteer fire protection participation is inconsistent with the Dunmore Borough Fire Department's Standard Operating Guidelines; and thus, we could not conclusively ascertain which volunteer firefighters would be considered an eligible volunteer equivalent.

During the audit period, the Department of the Auditor General received information which raised questions concerning the validity of the certified percentages of fire protection service provided by the full-time paid firefighters and the volunteer firefighters for the years 2005 and 2006. As such, the Bureau of Volunteer Firefighters' Relief Association Audits in conjunction with the Department's Office of Special Investigations examined the annual AG-385 forms submitted by the Borough of Dunmore for years 2005 and 2006, as well as years 2007 through 2009.

Form AG-385, Certification of Foreign Fire Insurance Tax Distribution & General Municipal Pension System State Aid, is an annual certification submitted to the Department of the Auditor General by each municipality as to the proportion of actual fire protection service provided between full-time paid and volunteer firefighters. The percentage of volunteer protection is used by the Department to determine how much state aid is received by the borough for distribution to the associated volunteer firefighters' relief associations. For years 2005-2007, the Borough of Dunmore certified 28.5 percent volunteer fire protection. In 2008, the certification of volunteer fire protection changed from 28.5 percent to 5 percent. In 2009, the certification of volunteer fire protection reverted back to 28.5 percent. However, there is insufficient and inconclusive documentation to support how these percentages were calculated by the borough.

The Department had recommended in an audit report covering the period January 1, 2001 to September 30, 2002, that the relief association, through its affiliated volunteer fire companies, actively work with the Borough of Dunmore in determining the percentage of fire protection service provided by the volunteer firefighters that is reported annually by the borough to the Department of the Auditor General on Form AG-385. In response to this recommendation, the

DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – (Continued)

borough did adopt a resolution in March of 2004 recognizing the Dunmore Volunteer Firefighters' Relief Association and a format of procedural operation regarding the volunteer fire protection. The resolution calls for the establishment of an *ad hoc* committee (which includes a volunteer firefighters' relief association officer) wherein the committee will meet on a quarterly basis and issue a quarterly report to borough Council which details the status, activities, and compliance with other requirements of the resolution, as well as a report with substantiating documentation of fire service provided by the volunteer firefighters during the quarter. Our Department's Office of Special Investigations could not find substantiating evidence to support that such an ad hoc committee was formed, met quarterly, issued a quarterly report, or issued a report with substantiating documentation of fire service provided by the volunteer firefighters during the quarter. In the course of their investigation, they were also informed that the volunteer firefighters' relief association officers were not even aware of this resolution; and thus, they were unable to comply with the provisions within.

Secondly, as referenced above, the criteria outlined by the borough solicitor and approved by the DCED for determining who qualifies as a certifiable volunteer firefighter is inconsistent with the Dunmore Borough Fire Department's Standard Operating Guidelines. According to the letter submitted by the Dunmore Borough solicitor, an individual can be certified as a volunteer firefighter if they are documented to be ready and pager equipped. However, Section 11, entitled Accountability System, of the Standard Operating Guidelines of the Borough fire department states, in part, "to operate on any scene, firefighters must have an accountability tag." Our Department's Office of Special Investigations found that the number of volunteer firefighters who have been issued an accountability tag differs from the number of individuals who have been provided with a pager. Consequently, we cannot determine which qualifications should be employed to properly calculate the total number of certifiable volunteer firefighters.

Criteria: The distribution of state aid is governed by Chapter 7 of Act 205 of 1984 (53 P.S. 895.701-895.706), a.k.a. The Foreign Fire Insurance Tax Distribution Law.

53 P.S. 895.706(a)(3) states:

Each municipality served by both paid firefighters and volunteer firefighters shall annually certify to the Auditor General the proportion of the actual fire protection service in the municipality provided by the paid firefighters and proportion of the actual fire protection service in the municipality provided by the volunteer firefighters in order to determine the distribution of the foreign fire insurance premium tax pursuant to subsection (b)(3).

DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – (Continued)

Following, 53 P.S. 895.706(b)(3) states:

The foreign fire insurance premium tax amount applicable to a municipality served by both paid firefighters and volunteer firefighters shall be divided into the portion applicable to paid firefighters and the portion applicable to volunteer firefighters. The division of the amount shall be based on the proportion of the **actual** fire protection service in the municipality provided by each type of firefighter as certified by the municipality . . . (emphasis added)

In addition, Section 11-1 of the Dunmore Borough Fire Department's Standard Operating Guidelines states:

To operate on any scene firefighters must have an accountability tag. Upon arrival to a scene, firefighters must check in with pump operator or incident commander, hand in their accountability tag and wait for assignment. Firefighters will under no circumstance operate on a scene until this policy is strictly adhered to. Overtime, volunteer participation, or any other credit will not be given to any firefighter unless this guideline is followed.

Lastly, Sections 3 and 4 of the Borough Resolution, dated March 22, 2004, recognizing the Dunmore Volunteer Firefighters' Relief Association and a format of procedural operation specifically states, in part:

Section 3: There is hereby formed and appointed an *ad hoc* committee comprised of the Mayor, or his designee; President of Council, or his designee; the Fire Chief; and the President of the Dunmore Volunteer Firefighters' Relief Association, or his designee.

Section 4: The Committee shall meet quarterly and shall:

- a. Maintain a roster of active Volunteer Firefighters that includes the name, contact number, and training level status of each member.
- b. Implement and maintain an ongoing Fire Service training program.
- c. Implement and maintain a Volunteer Firefighter emergency response call out system.
- d. Implement and maintain a Borough wide fire protection program.
- e. Implement and maintain a Volunteer Firefighter emergency response plan for residential institutions within the Borough.
- f. Devise, implement, and maintain a reporting system, including documentation, of Fire Service provided by the recognized volunteer companies.

DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDING AND RECOMMENDATION

Finding – (Continued)

- g. Issue to Borough Council, a quarterly report, at the monthly council meeting following the close of each calendar quarter, said report to detail the status, activities and compliance of sub-sections 4a through 4e, as well as a report, with substantiating documentation of Fire Service provided by the Volunteer Firefighters during the quarter.

Cause: The borough and the relief association neglected to actively communicate in determining which volunteer firefighters qualify as a volunteer equivalent and in establishing a uniform methodology that should be engaged to calculate the percentage of fire protection service provided by the volunteer firefighters and that is reported annually by the borough to the Department of the Auditor General on Form AG-385.

Effect: Given the inadequate and inconsistent documentation of the methodology used in the certification of volunteer fire protection services, there is inconclusive evidence to support the percentages reported on Form AG-385 for years 2005 through 2009 and, therefore, the relief association may have received an improper amount of state aid.

Recommendation: We recommend that for purposes of preparing all future AG-385 forms, the relief association and the Borough of Dunmore develop an official policy, agreed upon by both entities whereby requirements are established for record-keeping of volunteer participation, the training of all volunteer firefighters, the criteria that must be met by each volunteer in order to qualify as a volunteer equivalent for certification on the Department of the Auditor General's Form AG-385, and the exact methodology that will be employed each year to calculate the percentage of fire protection service provided by volunteer firefighters versus the percentage of fire protection service provided by the paid firefighters. In addition, as stated on Form AG-385, the borough must maintain all supporting documentation to validate the percentages certified for the volunteer fire protection and the paid fire protection services. If there is not adequate documentation maintained to support the percentages certified on all future AG-385 forms, the relief association may be required to return all or a portion of future state aid allocations.

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.

DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act<sup>1</sup>, it is the responsibility of the volunteer firefighters' relief association to invest its funds in a proper and prudent manner.

As these investments typically provide an income stream to the relief association for annual operations, it is generally sensible not to invest all VFRA money in one asset or asset class that places the principal at risk. In fact, state law requires VFRA's to "reasonably diversify investments, unless the [VFRA] reasonably determines that it is in the interest of the beneficiaries not to diversify..."<sup>2</sup>.

By diversifying investments, the VFRA can help preserve capital, increase liquidity and decrease volatility. Diversification means spreading one's money among different investments; asset allocation diversifies total investments among different investment classes, such as stocks, bonds, government securities, and cash equivalents.

As of December 31, 2008, the VFRA had \$1,846,752 (fair value) or 95% of the VFRA's cash and investments in stocks.

The VFRA management should periodically review its specific cash needs and investment goals and ensure that its investments are allocated and diversified to prudently meet those needs and goals.

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<sup>1</sup> 53 P.S. § 8506(c)(1997). This provision incorporates the "prudent investor rule" of the Probate, Estates, and Fiduciaries Code, 20 Pa. C.S.A. §7201 et seq.

<sup>2</sup> 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
 ACCOMPANYING EXPENDITURE INFORMATION  
 FOR THE PERIOD JANUARY 1, 2006 TO DECEMBER 31, 2008

Act 84 at 53 P.S. § 8502(1) states, in part, that:

A volunteer firefighters' relief association is an organization formed primarily for the purpose of affording financial protection to volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service. Such an association may also serve other purposes, . . . provided only that adequate provisions be first made to serve its primary purpose. . . .

Act 84 at 53 P.S. § 8506, authorizes the investment of relief association funds and outlines the types of benefits and services that can be provided with volunteer firefighters' relief association funds. All expenditures must be properly authorized as prescribed in the volunteer firefighters' relief association bylaws and approved at an association meeting.

USES OF FUNDS:

Benefit Services:	
Insurance premiums	\$ 12,317
Death benefits	84,000
Total Benefit Services	\$ 96,317
Fire Services:	
Equipment purchased	\$ 5,127
Equipment maintenance	401
Training expenses	100
Total Fire Services	\$ 5,628
Administrative Services:	
Officer compensation	\$ 14,078
Other administrative expenses	3,177
Total Administrative Services	\$ 17,255
Total Investments Purchased	\$ 248,866
Other Expenditures:	
Principal payments on loan	\$ 25,000
Interest payments on loan	278
Total Other Expenditures	\$ 25,278

DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Dunmore Volunteer Firefighters' Relief Association Governing Body:

Mr. Benjamin F. Mastro, President

Mr. John Boland, Vice President

Mr. Joseph Ehnot, Secretary

Mr. Thomas P. Cummings Sr., Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Denise Muraca, Secretary  
Dunmore Borough

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).