



JONATHAN R. DAVIS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

JONATHAN R. DAVIS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2004 TO DECEMBER 31, 2006



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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 Jonathan R. Davis 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 Jonathan R. Davis Volunteer Firefighters' Relief Association was allocated state aid from the following municipalities:

<u>Municipality</u>	<u>County</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Lake Township	Luzerne	\$2,221	\$2,442	\$2,469
Lehman Township	Luzerne	\$6,513	\$7,141	\$7,303

BACKGROUND (Continued)

However, the 2005 state aid allocation from Lehman Township was not deposited into a relief association account until May 29, 2007.

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

Jonathan R. Davis Volunteer Fire Company, Inc.

Ms. Sandra Blaine, President
JONATHAN R. DAVIS VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Luzerne County

We have conducted a compliance audit of the Jonathan R. Davis 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, 2004 to December 31, 2006. The audit was conducted in accordance with *Government Auditing Standards* applicable to performance audits, issued by the Comptroller General of the United States.

The objectives of the audit were:

1. To determine if the volunteer firefighters' relief association took appropriate corrective action to address the findings contained in our prior audit report; and
2. 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 objectives identified above.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to volunteer firefighters' relief associations and to audit volunteer firefighters' relief associations having received such aid. An administrative unit of the Department's Comptroller's Office that is not involved in the audit process calculates state aid and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Volunteer firefighters' relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Jonathan R. Davis 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 applicable state laws, contracts, bylaws and administrative procedures significant within the context of the audit objectives. We also tested transactions, confirmed the Jonathan R. Davis Volunteer Firefighters' Relief Association's cash balance as of December 31, 2006, with the custodians of the funds, and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our audit found that for the period January 1, 2004 to December 31, 2006, the Jonathan R. Davis Volunteer Firefighters' Relief Association expended funds as presented in the accompanying information and as of December 31, 2006, had a cash balance of \$17,377 and no investments. Additionally, the results of our tests indicated that, in all significant respects, the Jonathan R. Davis Volunteer Firefighters' Relief Association received and expended state aid and accumulated relief association funds in compliance with applicable state laws, contracts, bylaws and administrative procedures, except as noted in the following findings discussed later in this report:

- Finding No. 1 – Inappropriate Payments on Lease-Purchase Agreement
- Finding No. 2 – Unauthorized Expenditures
- Finding No. 3 – Failure to Timely Deposit State Aid
- Finding No. 4 – Inadequate Minutes of Meetings

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

January 24, 2007

JACK WAGNER
Auditor General

JONATHAN R. DAVIS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATUS OF PRIOR FINDINGS

COMPLIANCE WITH PRIOR AUDIT RECOMMENDATIONS

The relief association has complied with the following prior audit recommendations:

- Insufficient Officer's Bond Coverage

By increasing the officer's bond coverage to an amount greater than the balance of cash assets and by eliminating the deductible clause on the bond.

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative roster of all equipment owned.

JONATHAN R. DAVIS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inappropriate Payments on Lease-Purchase Agreement

Condition: During the current audit period, the relief association made 8 monthly payments totaling \$8,800 under a lease-purchase agreement to finance the purchase of a 1975 tanker truck; however, the fire company executed the agreement and the lessee named on the lease agreement was the Jonathan R. Davis Volunteer Fire Company rather than the relief association. As a result, the relief association was making payments under a financing agreement to which the fire company was named lessee.

Criteria: Act 84 at 53 P.S. § 8506(e)(11) states:

The funds of any volunteer firefighters' relief association may be spent:

To purchase safeguards for preserving life, health, and safety to volunteer firefighters, so as to ensure their availability to participate in the volunteer fire service.

Cause: The relief association officials were unaware the lease-purchase payments were not permissible expenditures.

Effect: As a result of the lease-purchase agreement naming the fire company as lessee, the relief association is deemed to be making payments on a vehicle which will be owned by the fire company. Although payments to finance vehicles are considered authorized expenditures, the relief association must be named as the lessee in the agreement to ensure that the relief association is documented as the owner of the vehicle.

However, subsequent to the period under review, on May 29, 2007, the relief association received full reimbursement for the aforementioned lease payments.

Recommendation: We recommend the relief association ensure that no additional payments are made on this lease-purchase agreement after December 31, 2006. In addition, we recommend that, in the future, the relief association only pay for equipment or vehicles which will be owned by the association. We further recommend that relief association officials refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS, for guidance in administering the operations of the relief association.

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.

JONATHAN R. DAVIS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditures

Condition: The relief association expended a total of \$2,747 for the fire company's automobile insurance and property liability insurance which are not authorized by Act 84.

Criteria: Act 84 at 53 P.S. § 8506(e)(8 and 12) states:

The funds of any volunteer firefighters' relief association may be spent:

- (8) To contribute or to purchase contracts of insurance which will contribute towards the costs of rehabilitating and retraining volunteer firefighters who by reason of their participation in the fire service have suffered a major impairment of their ability to continue their vocation.

- (12) To secure insurance against the legal liability of the volunteer firefighters for loss and expense from claims arising out of the performance of their official, authorized duties while going to, returning from or attending fires or while performing their duties as special fire police.

The primary purpose of the automobile and property liability insurance is for the benefit of the fire company, not the volunteer firefighters; consequently, the premiums are not considered authorized expenditures as defined by Act 84

Cause: Relief association officials were unaware that the expenditures for the fire company insurance policies were not authorized by Act 84.

Effect: As a result of these improper expenditures, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 84.

However, subsequent to the period under review, on May 29, 2007, the relief association received reimbursement for the above unauthorized expenditures.

Recommendation: We recommend that the relief association officials become familiar with Act 84 at 53 P.S. § 8506(e) to aid them in determining the propriety of future expenditures. 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.

JONATHAN R. DAVIS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure to Timely Deposit State Aid

Condition: The 2004 and 2005 state aid allocations from Lehman Township were not timely deposited into the relief association's account. The detail of the distribution and deposit of these state aid allocations is as follows:

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2004	Lehman Township	\$ 6,513	November 20, 2004	February 9, 2005
2005	Lehman Township	7,141	November 21, 2005	May 29, 2007

Criteria: The foreign fire insurance tax allocations were distributed to the municipal treasurer, who forwarded the state aid to the volunteer firefighters' relief association within the 60 days required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Upon receipt of the state aid allocations, the relief association should ensure the funds are deposited in a timely manner.

Cause: The relief association failed to establish internal control procedures which require that all income received be recorded and deposited in a timely manner. According to the relief association officials, the 2004 state aid was not timely deposited due to the treasurer being out of town and the 2005 state aid was erroneously deposited into a fire company account.

Effect: As a result of the untimely deposits, funds were not available to pay general operating expenses or for investment purposes. In addition, an untimely deposit of receipts can lead to a greater risk that funds could be lost or misappropriated.

Recommendation: We recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. 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 and indicated they will take action to comply with the recommendation.

JONATHAN R. DAVIS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Inadequate Minutes of Meetings

Condition: The relief association failed to maintain detailed minutes of meetings, as required by Act 84. Specifically, the relief association's minutes did not address all of the financial-related transactions, which occurred during the period under review.

Criteria: Act 84 at 53 P.S. § 8505(a) states, in part, that the relief association:

. . . must provide for the taking and preserving of minutes of all meetings, and the maintenance of such books of account as may be necessary and appropriate to afford a permanent record of its financial affairs.

Cause: Relief association officials were unaware that maintaining detailed minutes of meetings was required by Act 84.

Effect: The failure to maintain detailed minutes of meetings prevented the verification as to whether all relief association business was presented before the membership for approval.

Recommendation: We recommend the relief association maintain detailed minutes of meetings, including all financial-related business conducted by the relief association. 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.

JONATHAN R. DAVIS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 ACCOMPANYING EXPENDITURE INFORMATION
 FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2006

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	\$ 3,465
Total Benefit Services	\$ 3,465
Fire Services:	
Equipment purchased	\$ 30,488
Equipment maintenance	3,550
Total Fire Services	\$ 34,038
Other Expenditures:	
Payments on fire company's lease-purchase agreement	\$ 8,800
Total Other Expenditures	\$ 8,800

JONATHAN R. DAVIS VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Jonathan R. Davis Volunteer Firefighters' Relief Association Officers:

Ms. Sandra Blaine, President

Ms. Angela Pender, Secretary

Ms. Cindy Blaine, Treasurer

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

Ms. Kelly Brelsford, Secretary
Lake Township

Mr. Jon H. Rogers, Secretary
Lehman Township

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.