

COMPLIANCE AUDIT

Jonathan R. Davis Volunteer Firemen's Relief Association

Luzerne County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2018

December 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Mr. John Hutchins, President
Jonathan R. Davis Volunteer Firemen's
Relief Association
Luzerne County

We have conducted a compliance audit of the Jonathan R. Davis Volunteer Firemen's Relief Association (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, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2017 to December 31, 2018.

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 required to be and was not 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 directly from the financial institution. Therefore, while the relief association provided bank statements that indicated that, as of December 31, 2018, the relief association had a cash balance of \$7,601, we were not able to verify this cash balance.

We were also not able to obtain copies of canceled or imaged checks from the relief association. While the relief association provided bank statements, the relief association failed to provide copies of canceled or imaged checks. Without copies of canceled or imaged checks, we were not able to determine whether two relief association officers authorized and signed the checks as required by Act 118.

Based on our audit procedures, we conclude that, because of the significance of the matters described in the findings below and discussed later in this report and the effects, if any, of the matters described in the 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, 2017 to December 31, 2018. 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 – Erroneous Transfer Of Funds

Finding No. 2 – Inadequate Documentation To Verify Proceeds From The Sale Of Rescue Vehicle

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

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.

November 13, 2019



EUGENE A. DEPASQUALE
Auditor General

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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, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, 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 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 118 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, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, 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.

BACKGROUND – (Continued)

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

<u>Municipality</u>	<u>County</u>	<u>2017</u>	<u>2018</u>
Lake Township	Luzerne	\$2,333	\$2,125
Lehman Township	Luzerne	\$7,205	\$6,565

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:

Jonathan R. Davis Volunteer Fire Company

JONATHAN R. DAVIS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Erroneous Transfer Of Funds

Condition: The relief association erroneously transferred funds from its checking account to the affiliated fire company's account. Specifically, the relief association erroneously transferred funds of \$500 and \$2,000 from its checking account to the affiliated fire company's account on March 17, 2017 and April 5, 2018, respectively. The fire company officials transferred \$500 and \$2,000 back into the relief association's account on October 16, 2017 and April 9, 2018, respectively, to correct the erroneous transfers.

Criteria: Relief association funds should not be commingled with any other organization's funds in order to maintain effective control of its assets. In addition, adequate accounting and internal controls should include procedures to prevent erroneous transfers.

Cause: The relief association failed to establish adequate internal control procedures that would prevent erroneous transfers and the commingling of funds. Funds were transferred into the affiliated fire company's account to pay for training expenses.

Effect: As a result of the erroneous transfer of funds, the relief association was unable to use the funds for other general operating expenses or for investment purposes. In addition, the transfer to the fire company's account reduces the relief association's control over cash disbursements.

Recommendation: We recommend that the practice of transferring funds for disbursement for a fire company account be immediately discontinued. In addition, the relief association officials should establish accounting and internal control procedures to monitor future relief association 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

JONATHAN R. DAVIS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Documentation To Verify Proceeds From The Sale Of Rescue Vehicle

Condition: As cited as a verbal observation in our prior audits, on December 15, 2012, the relief association solely purchased a rescue vehicle, in the amount of \$3,000, to carry personnel and safeguard equipment; however, the title to the vehicle was inappropriately issued in the name of both the fire company and the relief association even though the relief association owned 100 percent of the vehicle. On November 20, 2019, the relief association officials stated that the truck was sold in April of 2019. Relief association officials provided the May 14, 2019 meeting minutes with no explanation for the \$2,500 deposit and the April bank statement that provided no explanation for the \$2,500 deposit on April 15, 2019. The relief association officials were unable to provide sufficient documentation, such as a bill of sale or sales agreement, showing the amount actually received for the sale of the rescue vehicle to verify the meeting minutes and bank statement deposit.

Criteria: Section 7418(a) of Act 118 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 maintain sole ownership of all equipment purchased by the relief association.

Cause: Relief association officials failed to ensure that it received proper documentation to verify the proceeds of the sale of the rescue vehicle.

Effect: The failure to receive proper documentation to verify the proceeds from the sale of the rescue vehicle places the relief association's ownership interest at greater risk. As a result, the relief association was unable to verify if the appropriate amount of funds were received. Furthermore, the relief association's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the relief association officials provide proper documentation to verify the sale price of the rescue vehicle. If such documentation is not provided, we recommend that the relief association be reimbursed \$3,000. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

JONATHAN R. DAVIS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

JONATHAN R. DAVIS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 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 327 Finance Building, Harrisburg, PA 17120.

JONATHAN R. DAVIS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
SUPPLEMENTARY FINANCIAL INFORMATION
CASH BALANCE
AS OF DECEMBER 31, 2018

Cash	<u>\$ 7,601</u>
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JONATHAN R. DAVIS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
 SUPPLEMENTARY FINANCIAL INFORMATION
 SUMMARY OF EXPENDITURES
 FOR THE PERIOD JANUARY 1, 2017 TO DECEMBER 31, 2018

Expenditures:

Benefit Services:	
Insurance premiums	\$ 3,093
Fire Services:	
Equipment purchased	\$ 3,181
Equipment maintenance	3,909
Training expenses	1,930
Total Fire Services	\$ 9,020
Administrative Services:	
Other administrative expenses	\$ 8,344
Bond premiums	436
Total Administrative Services	\$ 8,780
Other Expenditures:	
Erroneous transfers – See Finding No. 1	\$ 2,500
Total Expenditures	\$ 23,393

JONATHAN R. DAVIS VOLUNTEER FIREMEN'S RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Jonathan R. Davis Volunteer Firemen's Relief Association Governing Body:

Mr. John Hutchins
President

Mr. Joe Dixon
Vice President

Ms. Angie Harmon
Secretary

Ms. Cindy Blaine
Treasurer

The following municipalities allocated foreign fire insurance tax monies to this relief association and received a copy of this report:

Ms. J. Carlene Price
Secretary
Lake Township

Ms. Laura Elderkin
Secretary
Lehman 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.