

COMPLIANCE AUDIT

Dunmore Borough Police Pension Plan Lackawanna County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

January 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Dunmore Borough
Lackawanna County
Dunmore, PA 18512

We have conducted a compliance audit of the Dunmore Borough Police Pension Plan for the period January 1, 2015 to December 31, 2016. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.

We determined that there were no benefit calculations prepared for the years covered by our audit period.

- We determined whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation.

Dunmore Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Dunmore Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough's compliance with those requirements and that we

considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the Dunmore Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Plan Not In Compliance With Act 600 Provisions
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Adopt Benefit Provisions Mandated By Act 30
- Finding No. 3 – Noncompliance With Prior Audit Recommendation – Unauthorized Provision For A Killed In Service Benefit

The findings contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by borough officials. We are concerned by the borough's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it. In our prior audit report, it was noted that the Department was extremely concerned about the historical trend information contained in the schedules of funding progress included in the report which indicated a continued decline of assets available to satisfy the long-term liabilities of the plan. The plan's funded ratio went from 47.8% as of January 1, 2011, to a ratio of 39.4% as of January 1, 2013. Based on this information, and the funding status of the borough's non-uniformed and firemen's pension plans, pursuant to Act 205 distress levels, the borough was in Level III severe distress status. As noted in the prior audit report, the borough deposited note proceeds in the amount of \$2,476,814 into the plan which was reflected in the plan's January 1, 2015 actuarial valuation report. Due in large part to the effect of this deposit, the plan's funded ratio increased to 61.7%, and based on the aggregate funding levels of its plans as of January 1, 2015, the borough received a notification from the former Public Employee Retirement Commission (PERC) that the borough has improved to Level I minimal distress status.

As noted in the Comments section of this audit report, the borough deposited an additional \$2,517,375 into the police pension plan in December of 2016. The effect of this deposit will be reflected in the plan's January 1, 2017, actuarial valuation report. While the borough has dramatically improved the plan's funding status through the deposit of note proceeds in 2013 and 2016, the Borough is also obligated to pay the principal and interest on its debt service, in addition to meeting its plans' annual funding obligations in the future. We encourage borough officials in their fiduciary capacity to ensure that fiscally responsible decisions are made that will benefit Dunmore Borough and its taxpayers to ensure the borough's pension plans have adequate resources to meet current and future benefit obligations to the borough's hard-working police officers, firefighters and municipal employees.

The contents of this report were discussed with officials of Dunmore Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

January 19, 2018



EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The Act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Dunmore Borough Police Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Dunmore Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2 of 1951, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established January 1, 1951. Active members hired prior to January 1, 2005 are required to contribute 1 percent of compensation to the plan and active full-time officers hired on or after January 1, 2005 are required to contribute 5 percent of compensation to the plan. As of December 31, 2016, the plan had 22 active members, 1 terminated member eligible for vested benefits in the future, and 19 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2016, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 55 and 25 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

For officers who retire on or after January 1, 1993 - 70% of base pay, longevity and rank differential during the last full year of service. Excess benefits which have been awarded to certain retired members have been included in the actuarial valuation.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

Benefit equals 60% of the member's annual compensation at the date of disability.

DUNMORE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Status Of Prior Audit Recommendations

· Improper Adjustment To Survivor's Pension Benefit

As disclosed in the plan's last 5 prior audit reports, in 2004, municipal officials improperly recalculated the pension benefit due to the surviving spouse of a police officer who retired on December 31, 1988, and subsequently died on September 24, 1999. This improperly revised benefit calculation determined that the surviving spouse was due \$192 more per month in pension benefits and \$54,984 in total back pension payments. The revised benefit calculation included payments the police officer had received in 1988 pursuant to arbitration awards granting back pay for time worked in the years 1980 through 1985. However, only compensation earned in the officer's last 36 months of employment was authorized to be included in the officer's pension benefit calculation and, therefore, in his spouse's survivor's benefit.

During the current audit period, it was determined that the borough has continued to pay the excess pension benefits to the surviving spouse and borough officials have indicated that the borough will continue to do so in the future. Given the borough's position on this matter and considering that since the borough received state aid based on unit value during the current audit period and therefore did not receive any state aid attributable to the excess benefits provided, the finding will not be repeated in this audit report. However, the department will continue to monitor the effect of the excess survivor's benefits on the borough's future state aid allocations during subsequent of the plan.

· Unauthorized Pension Benefits

As disclosed in the plan's last 4 prior audit reports, two police officers were granted unauthorized pension benefits in 2006. These police officers were given credit for part-time service in order to complete the requirement of 20 years of service to qualify for normal retirement benefits. As disclosed in Finding No. 1 contained in this report, the plan's governing document and prior collective bargaining agreements contain unauthorized benefit provisions that exceed provisions prescribed in Act 600. The plan is paying an additional \$675 in monthly pension benefits to the two retirees in excess of those authorized by Act 600.

During the current audit period, it was determined that the Borough has continued to pay the excess pension benefits to the two retirees and Borough officials have indicated that the Borough will continue to do so in the future. Given the Borough's position on this matter and considering that since the borough received state aid based on unit value during the current audit period and therefore did not receive any state aid attributable to the excess benefits provided, the finding will not be repeated in this audit report. The Department will continue to monitor the effect of the excess benefits paid to these two retirees on the borough's future state aid allocations during subsequent audits of the plan.

DUNMORE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Dunmore Borough has complied with the prior audit recommendation concerning the following:

- Failure To Pay The Minimum Municipal Obligation Of The Plan

Borough officials paid the outstanding minimum municipal obligation (MMO) due to the police pension plan for the year 2014.

Noncompliance With Prior Audit Recommendations

Dunmore Borough has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Plan Not In Compliance With Act 600 Provisions
- Failure To Adopt Benefits Provisions Mandated By Act 30
- Unauthorized Provision For A Killed In Service Benefit

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Plan Not In Compliance With Act 600 Provisions

Condition: As disclosed in the prior audit report, the pension plan’s governing document includes benefit provisions awarded through collective bargaining which are contrary to Act 600. The inconsistencies between the governing document and Act 600 are as follows:

<u>Provision</u>	<u>Governing Document</u>	<u>Act 600</u>
Member contribution Rate	One percent (1%); Five percent (5%) - Active reserve officers who became full-time police officers after January 1, 2005.	Where members do not participate in Social Security - 5% to 8%. May be reduced annually by ordinance or resolution.
Interest on refunds of terminated member contributions	Not provided	Refunds of moneys paid are to include all interest earned by such moneys while in the police pension fund.
Retirement benefit	For officers who retire on or before December 31, 1992 - 80% of base pay during the last full year of service; For officers who retire on or after January 1, 1993 - 70% of base pay, longevity and rank differential during the last full year of service.	Monthly pension or retirement benefits other than length of service increments shall be computed at one-half the monthly average salary of such member during not more than the last 60 nor less than the last 36 months of employment.
Fund to be charged for pension payments	For retirement benefits calculated at 80%: 70% payable from the police pension fund and 10% from the general fund.	Payments made under the provisions of this act shall not be a charge on any other fund in the treasury of any borough, town, township or regional police department, or under its control, save the police pension fund.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Provision	Governing Document	Act 600
Cost-of-living increases	Does not limit total benefits to 75% of the salary used for computing retirement benefits.	Limits total benefits to 75% of the salary used for computing retirement benefits.
Credit for intervening military service	Not provided	Provided for members who were employed for at least 6 months prior to their military service and who return to employment within 6 months after separation from military service.
Mandatory retirement age	70 years	Not provided
Early retirement benefit	No minimum period of service is listed. Benefit is the projected retirement benefit multiplied by the quotient of the number of years of service completed divided by the number of years of service which would have been completed at normal retirement.	20 years of service required. Benefit is the actuarial equivalent of the gross pension amount calculated using the monthly average salary during the appropriate period prior to termination multiplied by the quotient of the number of years of service completed divided by the number of years of service which would have been completed at normal retirement.
Contributions by and eligibility of terminated members	Members dismissed for any reason with 25 years of service, but not having reached age 55 may continue to contribute to the plan until normal retirement age, at which time they are entitled to a pension.	Not provided

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Provision	Governing Document	Act 600
Retirement incentive	Members who retire when first eligible for normal retirement receive \$100 per month in addition to the normal retirement allowance.	Not provided

Furthermore, although the plan’s governing document provides for a normal retirement benefit at age 55 with 25 years of service in accordance with Act 600 provisions, the 1993-1994 collective bargaining agreement provides for officers to retire at age 50 with 20 years of service.

In addition, a side agreement to the 1992 Dunmore Police Collective Bargaining Agreement provides for pensions calculated based on base pay, longevity pay, rank differential and 50 percent of severance pay.

Regarding refunds of members’ contributions, the 1995 Dunmore Police Collective Bargaining Agreement properly provides for payment of interest on these refunds; however, this provision of the agreement has not been officially incorporated into the plan’s governing document.

Finally, regarding the fund to be charged for pension payments, the 1995 Dunmore Police Collective Bargaining Agreement provides for the payment of all benefits found to be unauthorized from the borough’s general fund.

Criteria: As previously disclosed, a governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. In addition, the pension plan’s benefit structure should be in compliance with the provisions of Act 600, as amended.

Cause: The inconsistent and/or unauthorized benefit provisions occurred as a result of collective bargaining between the borough and the police association. In addition, municipal officials failed to comply with the prior audit recommendation through subsequent collective bargaining and failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: As a result of the excess benefit provisions, 10 retired members of the plan are currently receiving pension benefit payments in excess of those authorized by Act 600.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Providing unauthorized benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Since the borough received its state aid allocations based on unit value during the audit period, the borough did not receive excess state aid allocations attributable to the unauthorized benefits provided. However, the plan's actuary determined that the increased costs to the pension plan as a result of the unauthorized pension benefits provided resulted in a \$923,243 increase in the plan's actuarial accrued liability. Beginning January 1, 2003, this increased liability was amortized over a ten-year period, resulting in an additional annual amortization contributions of \$127,399.

Recommendation: We again recommend that the borough comply with Act 600 upon the renewal, extension, or renegotiation of the collective bargaining agreement and update the plan's governing document accordingly, for all benefits authorized. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with the Act 205 funding standards. Furthermore, the excess benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the plan's future state aid allocations and submit this information to the Department. If it is determined the excess benefits had an impact on the borough's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

Management's Response: As previously noted, municipal officials indicated that the borough will adopt (sic) at a public meeting and follow Act 600 which will include the Act 30 amendments/provisions of 2002. If at any time the borough chooses to deviate from the Act 600 member contribution provision, the borough will do so through resolution at a public meeting. Currently the one (1) active officer contributing 1 percent (our records indicate 2 active officers contributed 1 percent during the audit period) is the result of an Act 111 court award from 1992. All other police members contribute 5 percent.

Auditor's Conclusion: We are concerned by the borough's failure to comply with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Adopt Benefit Provisions Mandated By Act 30

Condition: As disclosed in the prior audit report, Act 600 was amended by Act 30 on April 17, 2002, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600; however, as previously disclosed, municipal officials have not amended the police pension plan’s benefit structure to adopt all of the changes mandated by Act 30. The specific inconsistencies are as follows:

Benefit Provision	Governing Document	Act 600 (as amended)
Survivor’s benefit	The surviving spouse of a member who dies subsequent to retiring on pension, or if subsequently the spouse dies or remarries, then the child or children under the age of 18, shall during his/her lifetime or as long as she/he does not remarry, be entitled to receive 50% of the pension the member was receiving or would have been receiving had he been retired at the time of death.	A lifetime survivor’s benefit must be provided to the surviving spouse (or if no spouse survives or if he or she subsequently dies, the child or children under 18 years of age or if attending college, under or attaining the age of 23) of no less than 50% of the pension the member was receiving or would have been entitled to receive had he been retired at the time of death. (“Attending college” shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of 7 credit hours per semester.)
Pre-vesting death benefit	None provided	The surviving spouse of a member of the police force who dies before his pension has vested or if no spouse survives or if he or she survives and subsequently dies, the child or children under the age of 18 years, or, if attending college, under or attaining the age of 23 years, of the member of the police force shall be entitled to receive repayment of all money which the member invested in the pension fund plus interest or other increases in value of the member’s investment in the pension fund, unless the member has designated another beneficiary for this purpose.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Benefit Provision	Governing Document	Act 600 (as amended)
Service- related disability benefit	50% of the average monthly salary during the last 36 months of employment.	The benefit must be in conformity with a uniform scale and fixed by the plan’s governing document at no less than 50% of the member’s salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury.

Criteria: As previously disclosed, the police pension plan’s benefit structure should be in compliance with Act 600, as amended by Act 30.

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Continuing to maintain a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the police pension plan’s benefit structure into compliance with Act 600, as amended, by Act 30, at their earliest opportunity to do so.

Management’s Response: As previously noted, municipal officials indicated that the borough will adopt (sic) at a public meeting and follow Act 600 which will include the Act 30 amendments/provisions of 2002.

Auditor’s Conclusion: We are concerned by the borough’s continued failure to comply with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Unauthorized Provision For A Killed In Service Benefit

Condition: As disclosed in the prior audit report, Dunmore Borough maintains a police pension plan governed by the provisions of Act 600, as amended. Prior to the adoption of Act 51 of 2009, Act 600 contained a mandatory killed in service benefit provision; however, Act 51 specifically repealed the section of Act 600 that referenced the mandatory killed in service benefit. However, during the current audit period, it has been determined that the pension plan’s governing document continues to provide for a killed in service benefit that is no longer authorized by Act 600.

A resolution dated May 25, 1971 at section 2(a), subsection (2)(b) states:

If an active member shall be killed in the line of duty his survivors entitlement shall be computed using the salary which he was receiving at the date of his death as a base figure, adding to it maximum increment payment as provided for in the pension plan.

Criteria: Section 1(a) of Act 51 of 2009 states, in part:

In the event a law enforcement officer, ambulance service or rescue squad member, firefighter, certified hazardous material response team member or National Guard member dies as a result of the performance of his duties, such political subdivision, Commonwealth agency or, in the case of National Guard members, the Adjutant General, or, in the case of a member of a Commonwealth law enforcement agency, the authorized survivor or the agency head, within 90 days from the date of death, shall submit certification of such death to the Commonwealth.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

In addition, Section 1(d) of Act 51 of 2009 states, in part:

. . . the Commonwealth shall, from moneys payable out of the General Fund, pay to the surviving spouse or, if there is no surviving spouse, to the minor children of the paid firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty the sum of \$100,000, adjusted in accordance with subsection (f) of this section, and an amount equal to the monthly salary, adjusted in accordance with subsection (f) of this section, of the deceased paid firefighter, ambulance service or rescue squad member or law enforcement officer, less any workers' compensation or pension or retirement benefits paid to such survivors, and shall continue such monthly payments until there is no eligible beneficiary to receive them. For the purpose of this subsection, the term "eligible beneficiary" means the surviving spouse or the child or children under the age of eighteen years or, if attending college, under the age of twenty-three years, of the firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty. When no spouse or minor children survive, a single sum of \$100,000, adjusted in accordance with subsection (f) of this section, shall be paid to the parent or parents of such firefighter, ambulance service member, rescue squad member or law enforcement officer. (Emphasis added)

Furthermore, Section 2 of Act 51 of 2009 states:

Repeals are as follows:

- (1) The General Assembly declares that the repeals under paragraph (2) are necessary to effectuate the amendment of section 1 of the act.
- (2) The following parts of acts are repealed:
 - (i) Section 5(e)(2) of the act of May 29, 1956 (1955 P.L.1804, No. 600), referred to as the Municipal Police Pension Law.
 - (ii) Section 202(b)(3)(vi) and (4)(vi) of the act of December 18, 1984 (P.L.1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act.

Therefore, since Act 51 specifically repealed the killed in service provision of Act 600 and the funding provisions for the killed in service benefit that were contained in Act 205, the provision of a killed in service benefit is no longer authorized.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's governing document is in compliance with Act 600, as amended.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: Since Section 1 of Act 51 provides that the Commonwealth is obligated to pay the killed in service benefit less any pension or retirement benefits paid to eligible survivors, the continued provision of a killed in service benefit could result in the pension plan being obligated to pay a benefit that is no longer authorized by Act 600, and would have been paid entirely by the Commonwealth absent such provision.

Recommendation: We again recommend that the municipality review the plan's killed in service benefit with its solicitor in conjunction with Act 51 of 2009, and eliminate this unauthorized benefit provision at its earliest opportunity to do so.

Management's Response: As previously noted, municipal officials indicated that the borough will adopt (sic) at a public meeting and follow Act 600.

Auditor's Conclusion: We are concerned by the borough's failure to comply with the prior audit recommendation and encourage compliance at the earliest opportunity to do so. Also, considering the plan's funded status, we again urge borough officials to comply with the finding recommendation at their earliest opportunity to do so, especially in light of the fact that the Commonwealth has assumed the responsibility of paying the mandated killed in service benefit and the elimination of this benefit would help to improve the funding status of the plan going forward. Compliance will be evaluated during our next audit of the plan.

DUNMORE BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2011, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-11	\$ 3,192,255	\$ 6,684,947	\$ 3,492,692	47.8%
01-01-13	2,815,979	7,154,801	4,338,822	39.4%
01-01-15	4,962,049	8,036,314	3,074,265	61.7%

Note: The market values of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

DUNMORE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

DUNMORE BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2011	\$ 565,968	100.0%
2012	571,369	100.0%
2013	607,397	100.0%
2014	618,113	100.0%*
2015	536,881	100.0%*
2016	538,440	100.0%*

Note* - The borough deposited a portion of the net proceeds of a general obligation note issued during 2016 into the police pension plan in the amount of \$2,517,375 representing the pension plan's outstanding 2014 and 2015 required contributions as well as the 2016 minimum municipal obligation and included interest due to the late deposit of the borough's original obligations.

DUNMORE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	9 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	6.0%

DUNMORE BOROUGH POLICE PENSION PLAN
COMMENTS

Debt Service Obligations

In 2004, the borough issued General Obligation Pension Funding Bonds - Series of 2004 in the amount of \$4,115,000 for the purpose of providing money to fund a portion of the borough's unfunded actuarial accrued pension liability for its pension plans and for the cost of issuance. The borough made payments toward the debt service (principal and interest) on these bonds in the amounts of \$363,040 and \$373,895, for the years 2015 and 2016, respectively, and an additional \$384,160 in subsequent year 2017. The annual payments for this note are due until May 2019.

In addition, during the year ended December 31, 2013, the borough obtained a General Obligation Note – Series A of 2013 in the amount of \$5,000,000 for the purpose of making contributions to its pension plans. Proceeds from the note in the amount of \$2,476,814 were deposited into the police pension plan to fund the past due 2012 minimum municipal obligation (MMO) payment due and to fully pay the 2013 MMO due to the plan. The borough made monthly payments of \$35,724 towards the principal and interest totaling \$428,683 and 428,683 for the years 2015 and 2016, respectively, and an additional \$430,471 in subsequent year 2017. The monthly payments for this note are due until February 2, 2028.

Finally, during the year ended December 31, 2016, the Borough obtained a General Obligation Note – Series A of 2016 for \$5,000,000 for the purpose of making a contributions to its pension plans. Proceeds from the note in the amount of \$2,517,375 were deposited into the police pension plan to fund the outstanding 2014 and 2015 MMOs due to the plan, and to fully pay the 2016 MMO balance due to the police pension plan. Subsequent to the current audit period, the borough began making monthly payments in the amount of \$36,012 towards the outstanding principal and interest on the note which totaled \$432,144 for the year 2017. The monthly payments for this note are due until December 16, 2031.

The following schedule summarizes what the borough paid towards debt service obligations for the benefit of its pension plans during and subsequent to the current audit period:

<u>Years Paid</u>	<u>Series of 2004 Payments</u>	<u>Series of 2013 Payments</u>	<u>Series of 2016 Payments</u>	<u>Total</u>
2015	\$ 363,040	\$ 428,683	\$ -	\$ 791,723
2016	373,895	428,683	-	802,578
2017	384,160	430,471	432,144	1,246,775
Totals	<u>\$ 1,121,095</u>	<u>\$ 1,287,837</u>	<u>\$ 432,144</u>	<u>\$ 2,841,076</u>

DUNMORE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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