

DICKSON CITY BOROUGH POLICE PENSION PLAN

LACKAWANNA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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BACKGROUND

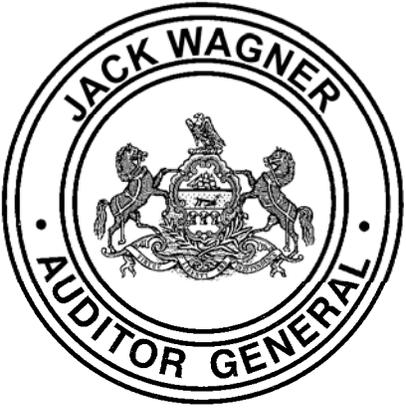
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Dickson City Borough Police Pension Plan is also governed by implementing regulations adopted by the 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Dickson City Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of a plan agreement dated March 11, 2008, effective January 1, 2008, adopted pursuant to Act 600. Prior to January 1, 2008, the plan was controlled by the provisions of a plan agreement dated September 22, 2004, effective January 1, 2004, 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 Honorable Mayor and Borough Council
Dickson City Borough
Lackawanna County
Dickson City, PA 18519

We have conducted a compliance audit of the Dickson City Borough Police Pension Plan for the period January 1, 2005, to December 31, 2007. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and 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 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.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Dickson City Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the borough's internal control structure as it relates to the borough's compliance with those requirements. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Dickson City 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 –
Disability Pension Benefits Not Properly Documented

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Pension Benefit Not Authorized By Act 600

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Dickson City Borough and, where appropriate, their responses have been included in the report.

September 30, 2008

JACK WAGNER
Auditor General

DICKSON CITY BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Dickson City Borough has complied with the prior audit recommendation concerning the following:

- Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

The borough paid the minimum municipal obligation due to the police pension plan for the year 2005.

Noncompliance With Prior Audit Recommendations

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

- Disability Pension Benefits Not Properly Documented
- Pension Benefit Not Authorized By Act 600

DICKSON CITY BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Disability Pension Benefits Not Properly Documented

Condition: As disclosed in our prior audit report, municipal officials granted disability pension benefits to 3 police officers without proper supporting documentation. Furthermore, subsequent to the audit period, municipal officials granted a disability pension benefit to a police officer without proper supporting documentation. The medical documents maintained in the officers' personnel files did not specify that the disabilities were service-related, as required by Act 600 and the plan's governing document.

Criteria: Pension benefits should be properly documented and in compliance with Act 600 and the plan's governing document. The plan agreement states, in part:

Totally and Permanently Disability – means a Participant is disabled as a result of performing police work, to the extent that he is prevented from engaging in his normal duties as a police officer as determined by a physician chosen by the Employer.

Cause: Municipal officials failed to adopt adequate internal control procedures to ensure that the disability pension benefits were properly documented and authorized.

Effect: The plan is paying disability pension benefits without appropriate supporting documentation to support the propriety of the payments. The 4 police officers who are currently receiving disability pension benefits had met the eligibility requirements for a normal retirement benefit in accordance with Act 600. The plan's normal retirement benefit is equal to 50 percent of a member's average compensation over the last 36 months of employment. For police officers who retired prior to January 1, 2008, the plan's service-related disability benefit is 50 percent of the member's final 12 months of salary. For police officers who retired on or after January 1, 2008, the plan's service-related disability benefit is 75 percent of the member's final 12 months of salary plus an amount equal to \$100 multiplied by completed years of service in excess of 25 years, not to exceed \$500.

Recommendation: We again recommend that municipal officials obtain appropriate documentation to verify that the disability benefits already granted were service-related. If it is determined that the disabilities were not service-related, we recommend that the benefits be recalculated as normal retirement benefits and adjusted prospectively.

Furthermore, we also recommend that municipal officials develop and implement adequate internal control procedures to ensure that future disability pension benefit determinations meet the requirements of the plan's governing document and Act 600.

Management's Response: Municipal officials agreed with the finding without exception.

DICKSON CITY BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600

Condition: As disclosed in our prior audit report, the pension plan’s governing document grants a benefit that is not authorized by Act 600. Section 1.02 of the plan agreement states:

Compensation means the total earnings, except as modified in this definition, paid to an Employee by the Employer during any specified period. Earnings as used in this definition include salary, court pay, holiday pay, overtime pay and other remuneration.

Criteria: Section 5(c) of Act 600 states, in part:

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 sixty nor less than the last thirty-six months of employment.

Although Act 600 does not define “salary,” the department has concluded, based on a line of court opinions, that the term does not encompass lump-sum payments for leave that was not earned during the pension computation period.

Cause: Plan officials believed that their methodology for calculating pension benefits was authorized by Act 600.

Effect: Providing unauthorized pension benefits increases the plan’s pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. It could also increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards and result in excess state aid allocations in the future.

Recommendation: We again recommend that the borough comply with Act 600 at its earliest opportunity to do so. 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 Act 205 funding standards. Furthermore, such 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 received and submit this information to the Department.

Management’s Response: Municipal officials agreed with the finding without exception.

DICKSON CITY BOROUGH POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 406 Finance Building, Harrisburg, PA 17120.

DICKSON CITY 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 2,604,616	\$ 2,788,908	\$ 184,292	93.4%	\$ 525,530	35.1%
01-01-05	2,888,363	3,242,262	353,899	89.1%	403,539	87.7%
01-01-07	3,070,022	3,395,747	325,725	90.4%	394,489	82.6%

DICKSON CITY 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

DICKSON CITY 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
2002	\$ 32,272	100.0%
2003	29,748	100.0%
2004	26,622	100.0%
2005	69,431	100.0%
2006	94,460	100.0%
2007	90,918	100.0%

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

The information presented in the required 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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	8 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.8%
Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

DICKSON CITY BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Dickson City Borough Police Pension Plan
Lackawanna County
801-805 Boulevard Avenue
Dickson City, PA 18519

The Honorable Anthony Zaleski	Mayor
Ms. Barbara Mecca	Council President
Mr. Kenneth Novack	Chief Administrative Officer

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, Room 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.