

COMPLIANCE AUDIT

Dunmore Borough Police Pension Plan Lackawanna County, Pennsylvania For the Period January 1, 2019 to December 31, 2022

November 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
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, 2019 to December 31, 2022. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 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 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 whether retirement benefits calculated for plan members who retired during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2019, and January 1, 2021, actuarial valuation reports were prepared and submitted by March 31, 2020, and 2022, 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 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 for the years ended December 31, 2019, 2020 and 2021, 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. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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.

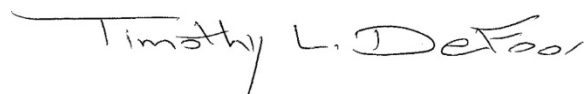
The results of our procedures indicated that, in all significant respects, the Dunmore Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings 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
- Finding No. 4 – Untimely Deposit Of State Aid

Finding Nos. 1, 2, and 3 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.

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.



Timothy L. DeFoor
Auditor General
October 24, 2023

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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.

Annual state aid allocations are provided from a two 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 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. § 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 one percent of compensation to the plan and active full-time officers hired on or after January 1, 2005 are required to contribute five percent of compensation to the plan. As of December 31, 2022, the plan had 20 active members, no terminated members eligible for vested benefits in the future, and 18 retirees receiving pension benefits.

DUNMORE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

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

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

On February 20, 2020 the borough deposited \$475,479 into the police pension plan representing the outstanding 2018 MMO balance due, with interest, in accordance with Act 205.

Status Of Prior Audit Recommendations

- Improper Adjustment To Survivor's Pension Benefit

As disclosed in the seven most recent audit reports of the pension plan, in 2004, municipal officials improperly recalculated the pension benefit due the surviving spouse of a police officer who retired in 1988, and subsequently died in 1999. This improperly revised benefit calculation determined that the surviving spouse was due \$192 more per month in pension benefits and an additional \$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 the surviving spouse's benefit.

As was also previously disclosed, it was determined that the borough had continued to pay the excess pension benefits to the surviving spouse and borough officials indicated that the borough would continue to do so in the future. Given the borough's position on this matter, it was also previously determined that the Department would continue to monitor the impact of the excess survivor's benefits on the borough's future state aid allocations during subsequent audits of the plan.

During the current audit period, the borough received state aid based on unit value and therefore did not receive any state aid attributable to the excess benefits provided. The Department will continue to monitor the effect of the excess survivor's benefits on the borough's future allocations of state aid allocations during subsequent audits of the plan.

DUNMORE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Status Of Prior Audit Recommendations – (Continued)

- Unauthorized Pension Benefits

As disclosed in the six most recent audit reports of the pension plan, two police officers were granted unauthorized pension benefits in 2006. These police officers were provided credit towards retirement for part-time service in order to complete the requirement of 20 years of service to qualify for normal retirement benefits, resulting in the pension plan paying an additional \$675 in monthly pension benefits to the two retirees in excess of those authorized by Act 600.

As was also previously disclosed, it was determined that the borough had continued to pay the excess pension benefits to the two retirees, and borough officials indicated that the borough would continue to do so in the future. Given the borough's position on this matter, it was also previously determined that the Department would continue to monitor the impact of the excess benefits paid to these two retirees on the borough's future state aid allocations during subsequent audits of the plan.

During the current audit period, the borough received state aid based on unit value and therefore did not receive any state aid attributable to the excess benefits provided. The Department will continue to monitor the effect of the excess benefits on the borough's future allocations of state aid allocations during subsequent audits of the plan.

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 Benefit 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 previously disclosed in prior audit reports, 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

In addition, 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.

Further, 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 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. Borough officials did not specify why the borough has not yet complied with the prior audit recommendation; however, as discussed below in the Management Response, it is their intent to subsequently comply.

Effect: As a result of the unauthorized/excess benefit provisions, 11 retired members of the pension 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. In addition, the plan's actuary previously determined that the increased costs to the pension plan as a result of the unauthorized pension benefits provided resulted in an increase in the plan's actuarial accrued liability (\$923,243) which was amortized over a ten-year period (*from 2003 through 2012*), requiring annual amortization contributions amounting to \$127,399. During the current audit period, 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.

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 and the borough would be required to reimburse the overpayment to the Commonwealth.

Management's Response: The borough provided the following response:

The Borough of Dunmore 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 of Dunmore 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 employee contributing 1% is the result of an Act 111 court award from 1992. All other Police members contribute 5%.

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. Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

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 previously disclosed in prior audit reports, the borough again, has not amended the police pension plan’s benefit structure to adopt all of the changes mandated by Act 30, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600. 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)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
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: Borough officials did not specify why the borough has not yet complied with the prior audit recommendation; however, as discussed below in the Management Response, it is their intent to subsequently comply.

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, at their earliest opportunity to do so.

Management’s Response: The borough provided the following response:

The Borough of Dunmore 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 of Dunmore 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 employee contributing 1% is the result of an Act 111 court award from 1992. All other Police members contribute 5%.

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. Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

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 previously disclosed in prior audit reports, 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. It was recommended that the municipality review and eliminate this unauthorized benefit provision; however, as of the date of this report, the pension plan’s governing document continues to provide for such benefit which 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 its 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.

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

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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: Borough officials did not specify why the borough has not yet complied with the prior audit recommendation; however, as discussed below in the Management Response, it is their intent to comply.

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.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Management’s Response: The borough provided the following response:

The Borough of Dunmore 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 of Dunmore 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 employee contributing 1% is the result of an Act 111 court award from 1992. All other Police members contribute 5%.

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. Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

Finding No. 4 – Untimely Deposit Of State Aid

Condition: The municipality did not deposit its 2019, 2020, 2021, and 2022 state aid allocations into an eligible pension plan within the 30-day grace period allowed by Act 205. The municipality received its 2019, 2020, 2021, and 2022 state aid allocations in the amounts of \$512,050, \$497,307, \$474,931, and \$528,406, on September 18, 2019, September 29, 2020, September 28, 2021, and September 28, 2022, respectively, but did not deposit the money into its police pension plan until December 23, 2019, December 23, 2020, November 18, 2021, and December 23, 2022, respectively.

Criteria: Section 402(g) of Act 205 states, in part:

... the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: Plan officials were unaware of applicable Act 205 provisions and deposited the state aid when the minimum municipal obligations (MMOs) were paid. In addition, the borough lacked adequate internal control procedures to ensure the timely deposit of state aid during the impacted years.

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30-day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay benefits, operating expenses or for investment and the risk of misapplication is increased.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend that the municipality pay the police pension plan the interest earned during the period beyond the 30-day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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

Auditor's Conclusion: 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, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$ 6,909,494	\$ 8,725,254	\$ 1,815,760	79.2%
01-01-19	7,900,282	9,355,411	1,455,129	84.4%
01-01-21	9,092,669	10,291,562	1,198,893	88.4%

Note: The market values of the plan’s assets at 01-01-17, 01-01-19, and 01-01-21 have been adjusted to reflect the smoothing of gains and/or losses over a five-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
2017	\$ 641,561	100.0%
2018	563,937	100.0%
2019	558,289	100.0%
2020	557,010	100.0%
2021	582,904	100.0%
2022	604,489	100.0%

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, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	4 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.75%
Cost-of-living adjustments	Provided per Act 600

DUNMORE BOROUGH POLICE PENSION PLAN
COMMENTS

Debt Service Obligations

As previously disclosed, the borough issued General Obligation Pension Funding Bonds - Series of 2004 in the amount of \$4,115,000 in 2004 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 with the final payment of \$407,947 made in 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. A portion of the proceeds from the note in the amount of \$2,476,814 was deposited into the police pension plan to fund the past due 2012 minimum municipal obligation (MMO) payment 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, \$432,255 and \$2,719,836 in 2019, 2020 and 2021, respectively. The monthly payments for this note were due through February 2, 2028, however, the borough made the final lump sum payment on March 1, 2021, in the amount of \$2,648,389.

Finally, during the year ended December 31, 2016, the Borough obtained a General Obligation Note – Series A of 2016 in the amount of \$5,000,000 for the purpose of making contributions to its pension plans. A portion of the proceeds from the note in the amount of \$2,517,375 was 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 plan. The borough made monthly payments of \$36,012 towards the outstanding principal and interest totaling \$432,144, \$432,144 and \$4,001,561 in 2019, 2020 and 2021, respectively. The monthly payments for this note were due through December 16, 2031, however, the borough made the final lump sum payment on November 5, 2021, in the amount of \$3,641,441.

The following schedule summarizes the total amounts paid by the borough towards its debt service obligations for the benefit of its pension plans during the prior and current audit periods:

Years Paid	Series of 2004 Payments	Series of 2013 Payments	Series of 2016 Payments	Total
2017	\$ 384,160	\$ 466,194	\$ 432,144	\$ 1,282,498
2018	398,485	398,318	432,144	1,228,947
2019	407,947	428,683	432,144	1,268,774
2020	-	432,255	432,144	864,399
2021	-	2,719,836	4,001,561	6,721,397
Totals	<u>\$1,190,592</u>	<u>\$4,445,286</u>	<u>\$5,730,137</u>	<u>\$11,366,015</u>

DUNMORE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Governor
Commonwealth of Pennsylvania

The Honorable Mark “Max” Conway Jr.
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Mr. Vincent J. Amico
Council President

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Ms. Jean Hill
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