DALLAS BOROUGH POLICE PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



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CONTENTS

Page
1 450

Background	1
Letter from the Auditor General	3
Status of Prior Finding	5
Finding and Recommendation:	
Finding – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600	6
Supplementary Information	8
Report Distribution List	13

BACKGROUND

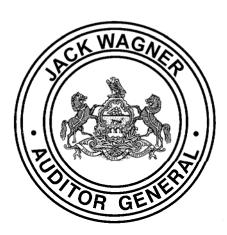
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 <u>et seq.</u>). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution 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 Dallas 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 Dallas Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1-11-03, 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 Honorable Mayor and Borough Council Dallas Borough Luzerne County Dallas, PA 18612

We have conducted a compliance audit of the Dallas Borough Police Pension Plan for the period January 1, 2007, to December 31, 2009. 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 finding 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. Dallas Borough contracted with an independent certified public accounting firm for annual audits of its general purpose 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 Dallas 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, 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 Dallas 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 finding further discussed later in this report:

Finding – 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 Dallas Borough and, where appropriate, their responses have been included in the report.

June 18, 2010

JACK WAGNER Auditor General

DALLAS BOROUGH POLICE PENSION PLAN STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Dallas Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

• Pension Benefit Not Authorized By Act 600

DALLAS BOROUGH POLICE PENSION PLAN FINDING AND RECOMMENDATION

<u>Finding – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized</u> <u>By Act 600</u>

<u>Condition</u>: As disclosed in the prior audit report, the pension plan's governing document grants a benefit that is not authorized by Act 600. Article I, Section 1.03 of Ordinance No. 1-11-03 states, in part:

For purposes of computing Average Applicable Compensation, actual monthly earnings shall be based on W-2 earnings in which all forms of earnings are derived from the terms and conditions of the employee's employment.

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.

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

<u>Effect</u>: Although no lump-sum payments were included in the pension calculation of the one member who retired during the prior audit period, and no plan members retired during the current audit period, providing unauthorized pension benefits could increase 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. The provision of unauthorized pension benefits could also result in the receipt of excess state aid and could increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

DALLAS BOROUGH POLICE PENSION PLAN FINDING AND RECOMMENDATION

Finding – (Continued)

<u>Recommendation</u>: We again recommend that the borough take appropriate action to exclude lump-sum payments for accumulated unused leave earned outside the pension computation period from pension calculations at its earliest opportunity to do so. To the extent that the borough has already obligated itself to pay benefits to existing plan members 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, the unauthorized portion of 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 state aid allocations and submit this information to the department.

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

DALLAS 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, 2005, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
						Unfunded
			Unfunded			(Assets in
		Actuarial	(Assets in			Excess of)
		Accrued	Excess of)			Actuarial
	Actuarial	Liability	Actuarial			Accrued
Actuarial	Value of	(AAL) -	Accrued	Funded	Covered	Liability as a %
Valuation	Assets	Entry Age	Liability	Ratio	Payroll	of Payroll
Date	(a)	(b)	(b) - (a)	(a)/(b)	(c)	[(b-a)/(c)]
01-01-05	\$ 776,563	\$ 661,863	\$ (114,700)	117.3%	\$ 174,671	(65.7%)
01-01-07	891,548	754,806	(136,742)	118.1%	188,131	(72.7%)
01-01-09	949,394	896,735	(52,659)	105.9%	212,468	(24.8%)

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses at 130% of market value. 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.

DALLAS 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.

DALLAS BOROUGH POLICE PENSION PLAN SUPPLEMENTARY INFORMATION (UNAUDITED)

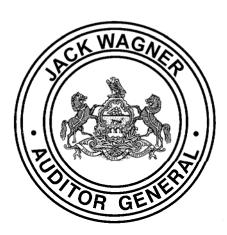
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 9,728	299.3%
2005	25,055	100.0%
2006	15,799	114.7%
2007	17,219	100.0%
2008	21,383	100.7%
2009	22,123	104.1%

DALLAS 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, 2009
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Plan assets are valued using the method described in Section 210(a) of Act 205, as amended, subject to a ceiling of 130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%



DALLAS BOROUGH POLICE PENSION PLAN REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell Governor Commonwealth of Pennsylvania

Dallas Borough Police Pension Plan Luzerne County 25 Main Street Dallas, PA 18612

The Honorable Timothy Carroll	Mayor
Mr. Lee Eckert	Council President
Ms. Tracy M. Carr	Borough Manager

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.