

**DUNMORE BOROUGH FIREMEN'S PENSION PLAN**

**LACKAWANNA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2010**





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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 Dunmore Borough Firemen's 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 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.

The Dunmore Borough Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 4 of 1955, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its firefighters.





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

We have conducted a compliance audit of the Dunmore Borough Firemen's Pension Plan for the period January 1, 2009, to December 31, 2010. 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. 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 Firemen's 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 Dunmore Borough Firemen's 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 –  
Improper Cost-Of-Living Adjustments

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A  
Net Underpayment Of State Aid

As previously noted, one of the objectives of our audit of the Dunmore Borough Firemen's Pension Plan was to determine compliance with applicable state laws, contracts, administrative procedures, and local ordinances and policies. During the current audit period, Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 55.5% as of January 1, 2009, which is the most recent date available. Based on this information, the Public Employee Retirement Commission issued a notification that the borough is currently in Level II moderate distress status. We encourage borough officials to monitor the funding of the firemen's pension plan to ensure its long-term financial stability.

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

February 3, 2012

JACK WAGNER  
Auditor General

DUNMORE BOROUGH FIREMEN'S 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 Appoint A Chief Administrative Officer

The borough formally appointed a chief administrative officer for the pension plan by a motion recorded in the minutes of a borough council meeting.

Noncompliance With Prior Audit Recommendation

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

- Improper Cost-Of-Living Adjustments

DUNMORE BOROUGH FIREMEN'S PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Improper Cost-Of-Living Adjustments

Condition: As disclosed in the prior audit report, the borough granted retroactive cost-of-living adjustments (COLAs) for the years 2004 through 2009 to 4 retirees and a surviving spouse of a retiree who were not eligible to receive them since all of the retirees had retired prior to January 1, 1998.

Criteria: Ordinance No. 1 of 2001 states, in part:

Cost of living allowances shall be computed only for retirees who retired on or after January 1, 1998. COLA shall be calculated on a calendar year basis commencing January 1st of each year. A pensioner is not entitled to his/her first COLA until he/she has been retired a minimum of 12 months.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that COLAs were only paid to eligible beneficiaries. In addition, municipal officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The pension plan is paying excess benefits to 4 retirees and a surviving spouse.

Recommendation: We again recommend that all pension benefits be paid in accordance with the provisions contained in the plan's governing document and the benefit payments to the aforementioned retirees and surviving spouse be adjusted prospectively. To the extent that the borough has already obligated itself to pay benefits in excess of those authorized by the plan's governing document, 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 unauthorized benefits on the plan's future state aid allocations and submit this information to the department.

Management's Response: At the audit exit conference held on February 3, 2012, plan officials indicated that they would provide a written response to this finding within 10 days; however, as of the date of this audit report, no such response has been provided.

DUNMORE BOROUGH FIREMEN'S PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: During and subsequent to the current audit period, the borough failed to certify 1 eligible firefighter (2 units), 1 eligible Department of Public Works (DPW) employee (1 unit), and 1 eligible nonuniformed employee (1 unit) in 2010 on Certification Form AG 385. In addition, the borough certified 1 ineligible police officer (2 units) in 2011 on Certification Form AG 385.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms are used, in part, to calculate the state aid due to the municipality for distribution to its pension plans.

The borough's 2010 state aid allocation was based on unit value. Therefore, the borough received an underpayment of state aid in the amount of \$12,940 as identified below:

<u>Type Of Plan</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
Nonuniformed	1	\$ 3,235	\$ 3,235
DPW	1	\$ 3,235	3,235
Firemen's	2	\$ 3,235	<u>6,470</u>
			<u>\$ 12,940</u>

The borough's 2011 state aid allocation was also based on unit value. Therefore, the borough received an overpayment of state aid of \$11,192 as identified below:

<u>Type Of Plan</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
Police	2	\$ 5,596	\$ 11,192

DUNMORE BOROUGH FIREMEN'S PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Therefore, as a result of the 2010 and 2011 certification errors, the borough received a net underpayment of state aid in the amount of \$1,748.

Although the borough will be reimbursed for the underpayment of state aid due to the borough's certification errors, the full amount of the 2010 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management's Response: At the audit exit conference held on February 3, 2012, plan officials indicated that they would provide a written response to this finding within 10 days; however, as of the date of this audit report, no such response has been provided.

DUNMORE BOROUGH FIREMEN'S 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, 2005, 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)]
01-01-05	\$ 3,140,600	\$ 4,233,397	\$ 1,092,797	74.2%	\$ 792,612	137.9%
01-01-07	3,282,991	4,376,638	1,093,647	75.0%	806,634	135.6%
01-01-09	2,559,445	4,615,615	2,056,170	55.5%	855,589	240.3%

Note: The market value of the plan's assets at 01-01-05 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. These methods 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 FIREMEN'S 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.



DUNMORE BOROUGH FIREMEN'S PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	\$ 218,188	100.0%
2006	190,661	100.0%
2007	269,500	100.0%
2008	270,477	100.0%
2009	279,998	124.1%
2010	293,485	100.0%

DUNMORE BOROUGH FIREMEN'S 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	Level dollar
Remaining amortization period	11 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 70-130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	6.0%
Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

DUNMORE BOROUGH FIREMEN'S PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Dunmore Borough Firemen's Pension Plan  
Lackawanna County  
400 South Blakely Street  
Dunmore, PA 18512

The Honorable Patrick W. Loughney	Mayor
Mr. Salvatore Verrastro	Council President
Mr. Thomas P. Cummings, Jr.	Secretary
Ms. Denise M. Muraca	Treasurer

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](http://www.auditorgen.state.pa.us).