

DUNMORE BOROUGH POLICE 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 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 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 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, 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 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 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 – Improper Adjustment To Survivor’s Pension Benefit
- Finding No. 4 – Noncompliance With Prior Audit Recommendation – Unauthorized Pension Benefits
- Finding No. 5 – Partial Compliance With Prior Audit Recommendation – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 6 – 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 Police 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:

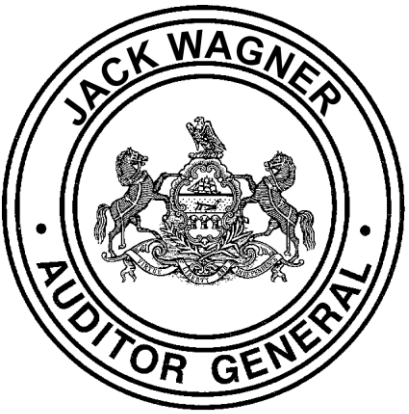
<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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 43.1% as of January 1, 2009, which is the most recent date available. Based on this information, and the funded status of the borough's other pension plans, 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 police 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 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 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.

Partial Compliance With Prior Audit Recommendation

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

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

The borough paid the 2009 minimum municipal obligation due to the pension plan; however, plan officials failed to calculate and pay the required interest due to the plan as further discussed in the Findings and Recommendations section of this report.

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
- Improper Adjustment To Survivor's Pension Benefit
- Unauthorized Pension Benefits

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:

Provision	Governing Document	Act 600
Member contribution rate	One percent (1%)	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% 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.
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.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 1993-94 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.

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: 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 previous collective bargaining between the borough and the police association. In addition, municipal officials have failed to comply with the prior audit recommendation through subsequent collective bargaining.

Effect: Ten retired members of the plan are currently receiving pension benefit payments in excess of those authorized by Act 600.

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 current 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 is being amortized over a ten-year period, resulting in annual amortization contributions of \$127,399.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the borough comply with Act 600 upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits 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 borough’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.

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. 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.)

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Benefit Provision	Governing Document	Act 600 (as amended)
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.
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: 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: Maintaining 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.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Improper Adjustment To Survivor's Pension Benefit

Condition: As disclosed in the prior audit report, on October 1, 2004, municipal officials improperly recalculated the pension benefit due to the surviving spouse of a police officer who retired on December 31, 1988, and died on September 24, 1999. This improperly revised calculation determined that the surviving spouse was due \$192 more per month and \$54,984 in back 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 is authorized to be included in the officer's pension benefit calculation and, therefore, in his spouse's survivor benefit.

Criteria: Section 1(a)(4) of Act 600 states, in part:

The surviving spouse of a member of the police force or a member who retires on pension who dies. . . shall during her lifetime . . . be entitled to receive a pension calculated at no less than fifty per centum of the pension the member was receiving. . . at the time of his death.

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.

Furthermore, in *Czekanski v. Ford City Borough*, 611 A.2d 791, 148 Pa.Cmwlth. 417, (Pa.Cmwlth 1992), Commonwealth Court concluded that a back pay settlement award *received* within the 36 months immediately preceding retirement was properly excluded from the calculation of a police officer's pension benefit because the back pay was not *earned* during that period.

Cause: Municipal officials felt the additional compensation from the arbitration awards reported on the member's 1988 W-2 form should have been included in his original pension benefit calculation. In addition, municipal officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: 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 current audit period, the borough did not receive excess state aid allocations attributable to the unauthorized benefits provided. However, the provision of unauthorized pension benefits could result in the receipt of excess state aid in the future, and also increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that the surviving spouse's pension benefit be adjusted prospectively to the originally determined amount. In addition, all improper payments made from the pension plan will be deemed ineligible for funding with state pension aid. Accordingly, the pension plan's actuary may be required to determine the impact, if any, of the improper payments on the borough'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.

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Unauthorized Pension Benefits

Condition: As disclosed in the prior audit report, on January 1, 2006, two police officers were granted unauthorized pension benefits. The 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 noted in Finding No. 1, the plan's governing document and prior collective bargaining agreements contain unauthorized benefit provisions that exceed Act 600 guidelines.

Criteria: Act 600 at Section 3, states, in part:

Each ordinance or resolution establishing a police pension fund shall prescribe a minimum period of total service in the aggregate of twenty-five years in the same borough, town, township or regional police department and shall fix the age of the members of the force at fifty-five years, or, if an actuarial study of the cost shows that such reduction in age is feasible, may fix the age of the members of the force at fifty years.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

The 1993-94 collective bargaining agreement provides for officers to retire at age 50 with 20 years of service. However, File of Council 3 of 1992 contains a provision for early retirement (see Finding No. 1 for details). This document sets no minimum period of service but does establish a formula to determine the fraction of the pension benefits to be paid. In addition, it does not provide for an early retirement benefit to be determined and received in the same manner as a normal retirement benefit.

Furthermore, Act 600 does not authorize the crediting of part-time service in pension benefit determinations.

Cause: Borough officials believed that the members may be granted service credit for part-time years of service. In addition, borough officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: 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 current audit period, the borough did not receive excess state aid allocations attributable to the unauthorized benefits provided. However, the provision of unauthorized pension benefits could result in the receipt of excess state aid in the future, and also increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that the borough review the pension benefit determinations with the borough solicitor to determine whether the retirees' pension benefits should be adjusted prospectively. 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 borough'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 POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Partial Compliance With Prior Audit Recommendation – Failure To Fully Pay
The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the prior audit report, plan officials did not fully pay the minimum municipal obligation (MMO) of the police pension plan for the year 2009, as required by Act 205.

During the current audit period, the borough paid the 2009 MMO due; however, plan officials failed to calculate and pay the required interest due to the pension plan.

Criteria: Section 302(e) of Act 205 states:

- (e) **Interest penalty on omitted municipal contributions.** Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

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

Effect: The failure to pay the interest due to the plan could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Recommendation: We recommend that the municipality pay the interest due to the police pension plan in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Furthermore, we recommend that plan officials establish adequate internal control procedures to ensure the MMO is properly determined and fully paid in accordance with Act 205 requirements.

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 POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – 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 POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Therefore, as a result of the certification errors in 2010 and 2011, 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 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, 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	\$ 3,938,973	\$ 5,345,942	\$ 1,406,969	73.7%	\$ 723,318	194.5%
01-01-07	3,696,420	6,368,435	2,672,015	58.0%	711,369	375.6%
01-01-09	2,739,469	6,360,184	3,620,715	43.1%	790,135	458.2%

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 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.

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
2005	\$ 162,942	100.0%
2006	179,422	100.0%
2007	262,513	100.0%
2008	267,693	100.0%
2009	416,583	100.0%
2010	434,106	100.0%

DUNMORE 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	Level dollar
Remaining amortization period	12 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	3.0%

DUNMORE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Dunmore Borough Police Pension Plan
Lackawanna County
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Dunmore, PA 18512

The Honorable Patrick W. Loughney	Mayor
Mr. Salvatore Verrastro	Council President
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