

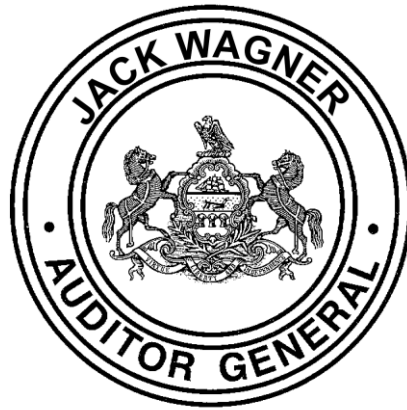
DUNMORE BOROUGH DEPARTMENT OF PUBLIC WORKS PENSION PLAN

LACKAWANNA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2010



DUNMORE BOROUGH DEPARTMENT OF PUBLIC WORKS PENSION PLAN

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ABBREVIATION

ERISA - Employee Retirement Income Security Act

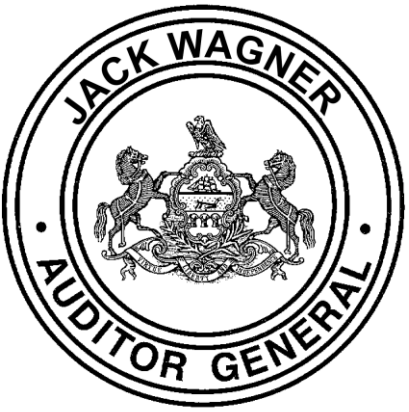
BACKGROUND

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 Department of Public Works 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.

As further described in the Letter from the Auditor General included in this report, the borough's nonuniformed union employees participate in the United Food and Commercial Workers Pension Plan. The Dunmore Borough Department of Public Works Pension Plan is locally controlled by the provisions of a resolution dated December 29, 1986. The plan is also affected by the provisions of collective bargaining agreements between the borough and its Department of Public Works employees. Active members are not required to contribute to the plan. The municipality is required to contribute \$131.13 per month per member.



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

We have conducted a compliance audit of the Dunmore Borough Department of Public Works 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 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 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. The borough's nonuniformed union employees participate in the United Food and Commercial Workers Pension Plan, a Taft-Hartley Act collectively bargained, jointly trustee, multi-employer pension plan, which is governed primarily by the Federal Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans subject to its provisions. Accordingly, the scope of our audit was restricted to the activities of the Dunmore Borough Department of Public Works Pension Plan and did not extend to the activities of the multi-employer pension plan.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Dunmore Borough Department of Public Works 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 Department of Public Works 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 – Incorrect Data
On Certification Form AG 385 Resulting In A Net Underpayment Of
State Aid

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 Dunmore Borough and, where appropriate, their responses have been included in the report.

February 3, 2012

JACK WAGNER
Auditor General

DUNMORE BOROUGH DEPARTMENT OF PUBLIC WORKS PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Dunmore Borough has complied with the prior audit recommendations concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The borough reimbursed the interest due to the Commonwealth for the state aid overpayments received in 2005 and 2006; and

- 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 Finding and Recommendation section of this report:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

DUNMORE BOROUGH DEPARTMENT OF PUBLIC WORKS PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: Our prior audit report disclosed that the borough failed to certify 1 eligible Department of Public Works (DPW) employee in 2009 on Certification Form AG 385, resulting in an underpayment of state aid in the amount of \$3,128. This amount was subsequently reimbursed to the borough in October of 2010.

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 and to ensure compliance with the prior audit recommendation.

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:

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

DUNMORE BOROUGH DEPARTMENT OF PUBLIC WORKS PENSION PLAN
FINDING AND RECOMMENDATION

Finding No. 2 – (Continued)

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

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 again 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 DEPARTMENT OF PUBLIC WORKS PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	None	\$ 54,567
2006	None	39,036
2007	None	31,471
2008	None	32,638
2009	None	98,369
2010	None	97,701

DUNMORE BOROUGH DEPARTMENT OF PUBLIC WORKS PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Dunmore Borough Department of Public Works 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.