

# COMPLIANCE AUDIT

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## Dunmore Borough Firemen's Pension Plan

Lackawanna County, Pennsylvania  
For the Period  
January 1, 2017 to December 31, 2018

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April 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
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 Firemen's Pension Plan for the period January 1, 2017 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit 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 all four of the 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2017 actuarial valuation report was prepared and submitted in accordance with Act 205 and whether selected information provided on this report 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 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 and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 Firemen's Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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.

March 12, 2020



EUGENE A. DEPASQUALE  
Auditor General

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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.

Annual state aid allocations are provided from a 2 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 Firemen's Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

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 plan was established January 1, 1955. Active members are required to contribute 3 percent of compensation to the plan. As of December 31, 2018, the plan had 14 active members, no terminated members eligible for vested benefits in the future, and 21 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2018, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 53 and 25 years of service.
Early Retirement	None
Vesting	100% vesting available after 12 years of service.

### Retirement Benefit:

Monthly benefit equal to 50% of average compensation. Pension payable in the form of a life annuity. Average compensation is the highest 36 consecutive months for the 60 month period preceding the date of determination plus 60% of allowable accumulated sick pay.

### Survivor Benefit:

Accrued benefit at the date of death, payable immediately and actuarially reduced for a joint and 100% survivor option.

### Service Related Disability Benefit:

Permanent and total disability as confirmed by the firemen's pension board. The accrued benefit at the date of disability.

DUNMORE BOROUGH FIREMEN'S PENSION PLAN  
STATUS OF PRIOR FINDINGS

Status Of Prior Audit Recommendation

· Improper Cost Of Living Adjustments

As disclosed in the 4 most recent audit reports of the pension plan, 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 according to the plan document since all of the retirees had retired prior to January 1, 1998. The plan's governing document only authorized COLAs for members who retired on or after January 1, 1998. In 2009, the borough disbursed \$21,593 in retroactive COLA benefits from the pension plan to these 5 recipients. In November 2009, one of the retirees passed away with no surviving beneficiary; however, the pension plan continued to pay \$506 per month in excess COLA benefits to the 4 remaining recipients.

As also previously disclosed, it was determined that the borough has continued to pay the excess COLA benefits and borough officials have indicated that the borough will 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 COLA benefits on the borough's future state aid allocations during subsequent audits of the plan.

During the current audit period, the borough again 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 improper COLAs on the borough's future allocations of state aid allocations during subsequent audits of the plan.

Compliance With Prior Audit Recommendation

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

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

During the current audit period, the borough reimbursed \$10,303 to the Commonwealth for the overpayment of state aid in 2012 and complied with the instructions accompanying Certification Form AG 385 in accurately reporting the required data.



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, 2013, is as follows:

	(1)	(2)	(3)	(4)
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)
01-01-13	\$ 2,666,893	\$ 5,077,920	\$ 2,411,027	52.5%
01-01-15	4,373,417	5,687,217	1,313,800	76.9%
01-01-17	5,703,509	6,454,221	750,712	88.4%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 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 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.

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
2013	\$ 371,494	100.0%
2014	382,837	100.0%
2015	317,272	100.0%
2016	315,669	100.0%
2017	342,109	100.0%
2018	318,312	100.0%

DUNMORE BOROUGH FIREMEN'S 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	5 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	6.0%

DUNMORE BOROUGH FIREMEN'S PENSION PLAN  
COMMENTS

**Debt Service Obligations**

In 2004, the borough issued General Obligation Pension Funding Bonds - Series of 2004 in the amount of \$4,115,000 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 in the amounts of \$384,160 and \$398,485 for the years 2017 and 2018, respectively, and a final payment of \$407,947 in subsequent year 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 \$1,757,373 was deposited into the firemen's 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 \$466,194 and \$398,318 in 2017 and 2018, respectively, and an additional \$428,683 in subsequent year 2019. The monthly payments for this note are due until February 2, 2028.

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 \$1,862,728 was deposited into the firemen's pension plan to fund the outstanding 2014 and 2015 MMOs due to the plan, and to fully pay the 2016 MMO due to the plan. During the current audit period, the borough began making monthly payments in the amount of \$36,012 towards the outstanding principal and interest on the note which totaled \$432,144 for each of the years 2017 and 2018, and subsequent year 2019. The monthly payments for this note are due until December 16, 2031.

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

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
Totals	<u>\$ 1,190,592</u>	<u>\$ 1,293,195</u>	<u>\$ 1,296,432</u>	<u>\$ 3,780,219</u>

DUNMORE BOROUGH FIREMEN'S PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Timothy M. Burke**  
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