

# COMPLIANCE AUDIT

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## City of Pittston Police Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2014 to December 31, 2015

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June 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

The Honorable Mayor and City Council  
City of Pittston  
Luzerne County  
Pittston, PA 18640

We have conducted a compliance audit of the City of Pittston Police Pension Plan for the period January 1, 2014 to December 31, 2015. 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 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. To determine if municipal officials took appropriate corrective action to address the findings 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 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 that there were no benefit calculations prepared for the years covered by our audit period.
- × We determined whether the January 1, January 1 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, respectively, in accordance with Act 205 and whether selected information provided on these reports 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 of the contractual agreement with the Pennsylvania State Association of Boroughs were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.
- × We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period and through the completion of our fieldwork procedures.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Pittston 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 city's internal controls as they relate to the city'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.

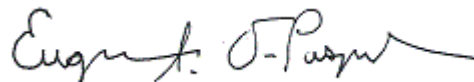
The results of our procedures indicated that, in all significant respects, the City of Pittston Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

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. 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 59.0% as of January 1, 2015, which is the most recent data available. We encourage city 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 the City of Pittston and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

May 18, 2016



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 City of Pittston 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 317 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.

The City of Pittston Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of File of Council No. 1 of 1974, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established January 1, 1960. Active members are required to contribute 2 percent of compensation to the plan. As of December 31, 2015, the plan had 9 active members, 1 terminated member eligible for vested benefits in the future, and 10 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2015, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Eligible with 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

### Retirement Benefit:

Benefit equals 50% of average monthly compensation based on higher of final rate of pay or the 5 highest year average, plus an incremental pension (maximum \$100) of 1/40<sup>th</sup> of the basic pension benefit times years of service over 20 earned prior to age 65.

### Survivor Benefit:

For death not in the line of duty and before completing 10 years of service, death benefit is 25% of pay. For death in line of duty or after completing 10 years of service, death benefit is 50% of pay. If retired, benefit is 100% of monthly pension.

### Service Related Disability Benefit:

Benefit equals 50% of compensation.

CITY OF PITTSTON POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

The City of Pittston has complied with the prior audit recommendation concerning the following:

Pension Provision Not In Compliance With Third Class City Code

The city adopted File of Council No. 1 (2016), which amended the pension plan to be in compliance with the Third Class City Code.

Partial Compliance With Prior Audit Recommendation

The City of Pittston has partially complied with the prior audit recommendation concerning the following:

Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

On April 7, 2015, and December 31, 2015, the city paid \$100,000, and \$234,971, respectively, which included interest of \$39,107, to fully pay the balance of the remaining 2014 minimum municipal obligation (MMO); however, plan officials failed to fully pay the 2015 MMO, as further discussed in the Finding and Recommendation section of this report.



CITY OF PITTSTON POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – 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 2014, as required by Act 205. During the current audit period, the city paid the outstanding 2014 MMO due to the plan; however, the city did not fully pay the MMO that was due to the police pension plan for the year 2015, as required by Act 205. The city has an unpaid MMO balance of \$230,006.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

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: The amount deposited towards the 2015 MMO only reflected a portion of the city's state aid allocation and no additional municipal contributions.

CITY OF PITTSTON POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

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

Due to the municipality's failure to fully pay the 2015 MMO by the December 31, 2015, deadline, the municipality must add the 2015 MMO balance to the current year's MMO and include interest, as required by Act 205.

Furthermore, the city's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality pay the MMO due to the police pension plan for the year 2015, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the city for examination during our next audit of the plan.

Furthermore, we recommend that in the future, plan officials pay the full MMO due to the plan.

Management's Response: The City is looking to pay the 2015 police pension MMO as soon as possible. The City has dedicated millage for "pension recovery" in the 2016 Operating Budget and the City will use part of these funds to meet the 2015 pension obligation as well as the 2016 MMO when calculated. Moving forward the City will explore raising additional revenues to meet the pension obligation as well as bargain more sustainable terms with the Uniform Unions. The demand of the pension payments on the budget is challenging but the City Administration is committed to meeting the challenge and to avoid the pension payment challenges resulting in a "structural" pension deficit for the City of Pittston. Therefore, the City will begin to pay down the 2015 MMO past due amount as soon as possible and look forward to pay in full all outstanding Pension MMO payments over the next 24 months and remain current from that point forward.

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and during our next audit of the plan.

CITY OF PITTSTON POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition of a finding such as that reported by the finding contained in this audit report may lead to a total withholding of state aid in the future unless the finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this Department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

CITY OF PITTSTON 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, 2011, 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)
01-01-11	\$ 2,476,895	\$ 4,625,273	\$ 350,221	53.6%
01-01-13	2,330,256	4,995,153	334,180	46.7%
01-01-15	2,848,211	4,830,604	1,982,393	59.0%

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses over a 5-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.

CITY OF PITTSTON 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.

CITY OF PITTSTON POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2010	\$ 185,877	100.0%
2011	257,000	100.0%
2012	245,511	100.0%
2013	313,765	100.0%
2014	334,650	100.0%
2015	347,421	33.8%

CITY OF PITTSTON POLICE 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	9 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%

CITY OF PITTSTON POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**The Honorable Jason Klush**  
Mayor

**Mr. Michael Lombardo**  
Councilman

**Mr. Samuel Argo**  
Councilman

**Mr. Kenneth Bangs**  
Councilman

**Mr. Joseph McLane**  
Councilman

**Mr. Joseph Moskovitz**  
City Manager

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