

LIMITED PROCEDURES ENGAGEMENT

Conyngham Borough Police Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

March 2017



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
Conyngham Borough
Luzerne County
Conyngham, PA 18219

We conducted a Limited Procedures Engagement (LPE) of the Conyngham Borough Police Pension Plan for the period January 1, 2013 to December 31, 2016 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period.
- 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.
- Whether the January 1, 2011, January 1, 2013 and January 1, 2015 actuarial valuation report was prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014 and 2016, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Conyngham Borough Police Pension Plan was not being 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 – Pension Plan Not In Compliance With Act 600 Provisions

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The borough should continue to maintain documentation related to this pension 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.

The contents of this report were discussed with officials of Conyngham Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

March 22, 2017


EUGENE A. DEPASQUALE
Auditor General

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CONYNGHAM BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Pension Plan Not In Compliance With Act 600 Provisions

Condition: On January 1, 2016, the borough hired its third full-time police officer. While a municipality that employs fewer than three full-time police officers may elect to establish a police pension plan pursuant to Act 600, upon hiring a third full-time police officer, the municipality must ensure the plan is established pursuant to Act 600 provisions. However, if police officers were given rights prior to the hiring of a third full-time police officer under their existing pension plan that differ from Act 600, the fact that a new plan is adopted because of the growth of the police department cannot in any way affect their existing benefits, and they are in effect “grandfathered” for purposes of age and service for retirement purposes. Because the pension plan’s governing document, Ordinance No. 154, as amended, was not adopted pursuant to Act 600, the plan’s governing document must be amended to ensure that the benefit provisions for the borough’s third full-time police office are in accordance with Act 600 provisions. In addition, the borough may amend the benefit provisions for the first two full-time police officers to be in compliance with Act 600. However, the borough must ensure that their existing benefit structure is not diminished.

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

Each borough, town and township of this Commonwealth maintaining a police force of three or more full-time members and each regional police department shall, and all other boroughs, towns or townships may, establish, by ordinance or resolution, a police pension fund or pension annuity to be maintained by a charge against each member of the police force. . . .

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the plan’s benefit provisions were updated to ensure compliance with Act 600 when the third full-time police officer was hired.

Effect: Maintaining provisions which are 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 recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the provisions of the police pension plan into compliance with Act 600, as amended, at their earliest opportunity to do so. The borough must also ensure that the existing benefits for the two police officers who were previously hired are not in any way diminished.

Management’s Response: Municipal officials agreed with the finding without exception.

Auditor’s Conclusion: Compliance will be evaluated during our next engagement of the plan.

CONYNGHAM 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, 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	\$ 450,015	\$ 341,807	\$ (108,208)	131.7%
01-01-13	499,860	363,040	(136,820)	137.7%
01-01-15	599,160	388,248	(210,912)	154.3%

CONYNGHAM 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.

CONYNGHAM 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
2011	\$ 7,925	100.0%
2012	None	N/A
2013	None	N/A
2014	None	N/A
2015	None	N/A
2016	None	N/A

CONYNGHAM BOROUGH 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	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	5.75%
Projected salary increases	5.0%

CONYNGHAM BOROUGH 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 Joe Carrelli
Mayor

Mr. Gary Gregory
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Mr. Frederick J. Blase
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