

# COMPLIANCE AUDIT

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## Larksville Borough Police Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2018 to December 31, 2022

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November 2023



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General

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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
Larksville Borough  
Luzerne County  
Larksville, PA 18704

We have conducted a compliance audit of the Larksville Borough Police Pension Plan for the period January 1, 2018 to December 31, 2022. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 finding contained in our prior 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 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 2020, and 2022, 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.

The Larksville Borough Police Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Larksville Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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.

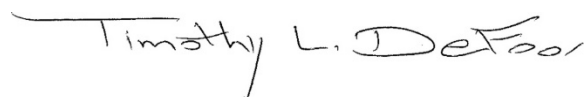
The results of our procedures indicated that, in all significant respects, the Larksville Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings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

- Finding No. 1 – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 2 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan
- Finding No. 3 – Untimely Deposit Of State Aid
- Finding No. 4 – Inconsistent Pension Benefits

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 Larksville 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.



Timothy L. DeFoor  
Auditor General  
October 30, 2023

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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.

Annual state aid allocations are provided from a two 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 Larksville Borough Police Pension Plan is also governed by implementing regulations 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974  
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Larksville Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 3, effective March 16, 2021, and a separately executed plan agreement with the plan custodian, adopted pursuant to Act 15. Prior to March 16, 2021, the plan was locally controlled by the provisions of Ordinance No. 10 of 1981, as amended, and a plan agreement with the plan custodian also adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established December 27, 1957. Active members were required to contribute two percent of compensation to the plan in 2019 and three percent of compensation to the plan in 2020 through 2022; however, member contributions were eliminated for 2018. As of December 31, 2022, the plan had six active members, no terminated members eligible for vested benefits in the future, and five retirees receiving pension benefits funded through annuities purchased with plan assets.

LARKSVILLE BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

Larksville Borough has partially complied with the prior 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 \$3,699 to the Commonwealth for the overpayment of state aid received in 2017; however, plan officials again failed to comply with the instructions that accompanied Certification Form AG 385 to assist them in accurately reporting the required pension data during the current audit period as further discussed in the Findings and Recommendations section of this report.

LARKSVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: As disclosed in the Status of Prior Finding section of this report, the borough partially complied with the prior recommendation by reimbursing the Commonwealth for the overpayment of state aid received in 2017. However, plan officials again failed to comply with the instructions that accompanied Certification Form AG 385 in the current audit period. The borough certified three ineligible police officers and overstated payroll by \$125,556 on the Certification Form AG 385 filed in 2022. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified. The borough manager indicated that an internal miscommunication occurred between the police department and the borough, and paperwork for the officers was delayed in reaching the borough for processing and entry into the plan. As a result, the officers were not members of the plan during 2017 and therefore were not eligible for certification.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough’s state aid allocation was based on pension costs, the incorrect certification of pension data affected the borough’s state aid allocations, as identified below:

| <u>Normal<br/>Cost</u> | <u>Payroll<br/>Overstated</u> | <u>State Aid<br/>Overpayment</u> |
|------------------------|-------------------------------|----------------------------------|
| 14.54%                 | \$ 125,556                    | \$ 18,256                        |

In addition, the borough used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

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



LARKSVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that the total excess state aid, in the amount of \$18,256, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

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

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

**Finding No. 2 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan**

Condition: The municipality's accounting/reporting system did not provide effective control over the transactional activity of the pension plan during the years 2019 and 2022. Municipal officials were unable to furnish annual financial statements or custodial account statements summarizing the financial activity of its pension plan.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

LARKSVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: Municipal officials did not maintain a separate detailed accounting of pension plan transactions which, among other things, helps assure the production of proper financial statements to effectively monitor the annual activity of the pension plan. Additionally, municipal officials indicated that the plan’s custodian failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the years 2019 and 2022.

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of individual transactions tested during performance of the audit, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan’s financial operations and could lead to undetected errors or improprieties in account transactions.

Recommendation: We recommend that municipal officials establish and maintain a financial accounting and reporting system that allows the municipality to effectively monitor the plan’s financial operations, even in the absence of statements from the plan custodian. Municipal officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting and record-keeping procedures. In addition, we recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account for its pension plan for the years 2019 and 2022 to ensure the accuracy and propriety of the transaction activity.

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

Auditor’s Conclusion: It was noted that the plan custodian went through a substantial upgrade to the plan administration software and implemented a new accounting system. The modernization process, along with the COVID-19 pandemic, resulted in unforeseen delays in the year-end reporting process for financial statements and GASB 68 reports. The custodian expects 2022 financial reports to be distributed before the end of 2023. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

LARKSVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Untimely Deposit Of State Aid**

Condition: The municipality did not deposit its 2018, 2019, 2020, 2021, and 2022 state aid allocations into an eligible pension plan within the 30-day grace period allowed by Act 205. The municipality received its 2018, 2019, 2020, 2021, and 2022 state aid allocations in the amounts of \$33,804, \$38,026, \$67,913, \$45,175, and \$64,065, respectively, on September 20, 2018, September 18, 2019, September 29, 2020, September 28, 2021, and September 28, 2022, respectively, but did not deposit the money into its police pension plan until November 28, 2018, December 11, 2019, December 31, 2020, December 17, 2021, and December 5, 2022, respectively.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: The 2018, 2019, 2020, 2021, and 2022 state aid was not deposited timely into the municipality’s pension plan because plan officials were under the impression it needed to be deposited within 60 days of receipt instead of the required 30 days.

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30-day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the police pension plan the interest earned during the period beyond the 30-day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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

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

LARKSVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – Inconsistent Pension Benefits**

Condition: The pension plan’s governing document, a separately executed document with the plan custodian adopted by Ordinance No. 3, contains benefit provisions that conflict with the collective bargaining agreement between the police officers and the borough, as follows:

| <u>Benefit Provision</u>           | <u>Governing Document</u>   | <u>Collective Bargaining Agreement</u>   |
|------------------------------------|---|--|
| Deferred Retirement Option Program | Not provided  | Effective 1/1/22, officers may enter the DROP after the officer reaches his/her normal retirement date. The length of DROP participation shall be 36 months. |
| Service Increment                  | 2.5 percent of Basic Benefit multiplied by completed years of service in excess of 25 years subject to a maximum of \$1,200 annually. | \$100 per month for each completed year of service in excess of 25 up to a maximum of \$500 per month.   |

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits.

Cause: Municipal officials failed to update the plan’s governing document to include all of the provisions contained in the collective bargaining agreement. The borough manager indicated she had been informed by other borough officials that no further action was required with regard to the DROP program benefits.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials amend the plan’s governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents.

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

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

LARKSVILLE BOROUGH POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the borough in the amount of \$18,256, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

LARKSVILLE 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, 2017, is as follows:

|                                | (1)                                    | (2)  | (3)  | (4)                        |
|--------------------------------|--|--|--|----------------------------|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) |
| 01-01-17                       | \$ 1,603,543                           | \$ 1,545,395   | \$ (58,148)  | 103.8%                     |
| 01-01-19                       | 1,764,832                              | 1,734,569  | (30,263)   | 101.7%                     |
| 01-01-21                       | 1,937,306                              | 1,753,155  | (184,151)  | 110.5%                     |

LARKSVILLE 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.

LARKSVILLE BOROUGH POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

| <u>Year Ended<br/>December 31</u> | <u>Actuarially<br/>Determined<br/>Contribution</u> | <u>Actual<br/>Contributions</u> | <u>Contribution<br/>Deficiency<br/>(Excess)</u> | <u>Covered-<br/>Employee<br/>Payroll</u> | <u>Contributions as<br/>a Percentage of<br/>Covered-<br/>Employee<br/>Payroll</u> |
|-----------------------------------|--|---------------------------------|---|--|---|
| 2014                              | \$ 15,427  | \$ 32,496                       | \$ (17,069)                                     | \$ 191,784                               | 16.94%  |
| 2015                              | 28,881   | 23,964                          | 4,917   | 239,221                                  | 10.02%  |
| 2016                              | 27,359   | 37,096                          | (9,737)   | 304,275                                  | 12.19%  |
| 2017                              | 24,047   | 52,335                          | (28,288)  | 340,192                                  | 15.38%  |
| 2018                              | 49,275   | 49,275                          | -   | 376,164                                  | 13.10%  |
| 2019                              | 57,071   | 57,881                          | (810)   | 390,258                                  | 14.83%  |
| 2020                              | 53,656   | 67,913                          | (14,257)  | 334,131                                  | 20.33%  |
| 2021                              | 31,509   | 45,175                          | (13,666)  | 246,860                                  | 18.30%  |
| 2022                              | 44,913   | 64,065                          | (19,152)  | *  | *   |

\* Due to the timing of this audit, covered-employee payroll for 2022 was not provided in this schedule.



LARKSVILLE 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, 2021   |
| Actuarial cost method         | Entry age normal  |
| Amortization method           | Not applicable  |
| Remaining amortization period | None  |
| Asset valuation method        | Not available   |
| Actuarial assumptions:        |   |
| Investment rate of return *   | 5.25%, compounded annually, net of investment and administration expenses |
| Projected salary increases *  | 4.1%  |
| * Includes inflation at       | 2.2%  |
| Cost-of-living adjustments    | 2.2% per year, subject to plan limitations                                |

*The information reported above was extracted from the Pennsylvania Municipal Retirement System Experience Study Results Report dated September 2020, which is the basis for the 01-01-2021 actuarial valuation. The report did not specify the actuarial or market value methodologies often contained in the Notes to Supplementary Schedules and will be added going forward when readily available.*

LARKSVILLE BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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