

# LIMITED PROCEDURES ENGAGEMENT

---

## Old Forge Borough Police Pension Plan Lackawanna County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

---

February 2018



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 Borough Council  
Old Forge Borough  
Lackawanna County  
Old Forge, PA 18518

We conducted a Limited Procedures Engagement (LPE) of the Old Forge Borough Police Pension Plan for the period January 1, 2015 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 municipal officials took appropriate corrective action to address the findings contained in our prior LPE Report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- Whether the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Old Forge 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 – Partial Compliance With Prior Audit Recommendation – Failure To  
Deposit The Full Amount Of State Aid Into The Pension Plan

The finding contained in this LPE report repeats a condition that was cited in our previous LPE 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 report.

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 Old Forge 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.

January 18, 2018

  
EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Status of Prior Findings .....	1
Finding and Recommendation:	
Finding – Partial Compliance With Prior Recommendation – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan .....	2
Supplementary Information .....	4
Report Distribution List .....	8

OLD FORGE BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendations

Old Forge Borough has complied with the prior recommendations concerning the following:

- Unauthorized Provision For A Killed In Service Benefit

The borough adopted Ordinance No. 1 of 2016 which removed the killed in service benefit.

- Improper Elimination Of Members' Contributions

The borough passed resolutions for eliminating member contributions for the years 2012 through 2018, in accordance with Act 600.

Partial Compliance With Prior Recommendation

Old Forge Borough has partially complied with the prior recommendation concerning the following:

- Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

On October 24, 2017, the borough deposited the remaining 2010 and 2011 state aid balance of \$26,634 into the police pension plan; however, plan officials failed to calculate and pay the required interest due to the plan as further discussed in the Finding and Recommendation section of this report.

OLD FORGE BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Recommendation – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan**

Condition: As disclosed in the prior LPE report, the municipality did not deposit the full amount of its 2010 and 2011 state aid allocations into the pension plan. The municipality received its 2010 and 2011 state aid allocations in the amounts of \$54,992 and \$79,264, on September 26, 2010 and April 26, 2012, respectively; however, \$9,273 of the 2010 state aid allocation and \$17,361 of the 2011 allocation had not been deposited to the pension plan. On October 24, 2017, the borough deposited the remaining balance of \$26,634 into the police pension plan; however, plan officials failed to calculate and pay interest due to the pension plan.

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: Municipal officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

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

Furthermore, an Order To Show Cause was issued to the borough on August 10, 2017 as a result of its noncompliance with the prior audit recommendation, resulting in the borough's 2017 state aid allocation being withheld. Although the borough has partially complied with the recommendation by depositing the state aid, the borough's 2017 and future state aid allocations will continue to be withheld until the borough complies with the recommendation below.

Recommendation: We recommend that the municipality pay the police pension plan the interest due beyond the 30 day grace period allowed by Act 205. A copy of the interest calculation must be submitted to this Department along with the evidence of payment.

Furthermore, we recommend that, in the future, plan officials properly deposit the state aid within 30 days upon receipt in accordance with Act 205 requirements.

OLD FORGE BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

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

Auditor's Conclusion: Due to the outstanding Order To Show Cause, compliance with the recommendation will be monitored subsequent to the release of the report and during our next engagement of the plan.

OLD FORGE 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	\$ 2,176,459	\$ 2,189,391	\$ 12,932	99.4%
01-01-13	2,267,041	1,674,466	(592,575)	135.4%
01-01-15	2,349,622	1,421,110	(928,512)	165.3%

Note: The market values of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. 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.

OLD FORGE 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.

OLD FORGE 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	\$ 42,906	100.0%
2012	44,261	107.9%
2013	43,511	104.7%
2014	None	N/A
2015	None	N/A
2016	None	N/A

OLD FORGE 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	The actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%

OLD FORGE 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 Bob Legg**  
Mayor

**Mr. Robert Semenza, Jr.**  
Council President

**Ms. MaryLynn Bartoletti**  
Borough Manager

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).