COMPLIANCE AUDIT

City of Carbondale Aggregate Pension Fund

Lackawanna County, Pennsylvania

For the Period

January 1, 2013 to December 31, 2014

August 2015

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 City Council
City of Carbondale
Lackawanna County
Carbondale, PA 18407

We have conducted a compliance audit of the City of Carbondale Aggregate Pension Fund for the period January 1, 2013 to December 31, 2014. 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 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 findings contained in our prior audit report; and

2. To determine if the pension fund 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 fund 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 whether the retirement benefits calculated for the plan member who retired from the firemen's pension plan during the current audit period 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 the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient. We also determined that there were no benefit calculations prepared for the police pension plan for the years covered by our audit period.

- We determined whether the January 1, 2013 actuarial valuation report was prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014, 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 all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Carbondale Aggregate Pension Fund 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 Carbondale Aggregate Pension Fund 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 – Noncompliance With Prior Audit Recommendation – Provision Of Benefits In Excess Of The Third Class City Code

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefits In Excess Of The Third Class City Code

Finding No. 3 – Partial Compliance With Prior Audit Recommendation – Failure To Pay The Minimum Municipal Obligations Of The Plans

Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding Nos. 1, 2, and 3 contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by city officials. We are concerned by the city's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations 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 the City of Carbondale 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.

June 11, 2015

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 Carbondale Aggregate Pension Fund 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

- Act 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

- Act 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.

The City of Carbondale Aggregate Pension Fund retains the assets and acts as a common investment and administrative agent for the city's police and firemen's pension plans. The police and firemen's pension plans are single-employer defined benefit pension plans locally controlled by the provisions of Chapter 27 of the city's code of ordinances, adopted pursuant to Act 317. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers and firefighters. The police pension plan was established August 7, 1950 and the firemen's pension plan was established December 19, 1949. Active members of both plans are required to contribute 5 percent of salary to their respective plans.

As of December 31, 2014, the police pension plan had 9 active members, no terminated members eligible for vested benefits in the future, and 20 retirees receiving pension benefits from the plan.

As of December 31, 2014, the firemen's pension plan had 6 active members, no terminated members eligible for vested benefits in the future, and 4 retirees receiving pension benefits from the plan.

As of December 31, 2014, selected plan benefit provisions are as follows:

POLICE PENSION PLAN

Eligibility Requirements:

Normal Retirement	Age 50 and 20 years of service.
Early Retirement	None
Vesting	Member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of average pay, plus 1.25% of pay per year of service in excess of 25 years (maximum $100).

Survivor Benefit:

If retired or eligible to retire - 50% of benefit. If killed in service after 10 years - 40% of pay. Before 10 years - 20% of pay.

Service Related Disability Benefit:

Benefit equals 40% of pay after 10 years, 20% of pay before 10 years.

FIREMEN'S PENSION PLAN

Eligibility Requirements:

Normal Retirement	Hired before 1/1/87: 20 years of service. Hired after 1/1/87: Age 55 and 20 years of service.
Early Retirement	Hired before 1/1/87: None Hired after 1/1/87: Age 50 and 25 years of service.
Vesting	None

Retirement Benefit:

Hired before 1/1/87: Benefit equals 50% of final pay, plus 1.25% of pay per year of service in excess of 20 years (maximum $100).

Hired after 1/1/87: Benefit equals 50% of final pay, plus 1.25% of pay per year of service in excess of 25 years (maximum $100).

Survivor Benefit:

Hired before 1/1/87: If retired or eligible to retire – Benefit equals 100% of benefit.

Hired after 1/1/87: If retired or eligible to retire – Benefit equals 50% of benefit.

If killed in service after 10 years - 40% of pay. Before 10 years - 20% of pay.

Service Related Disability Benefit:

Hired before 1/1/87: Benefit equals 50% of pay.

Hired after 1/1/87: Benefit equals 40% of pay after 10 years, 20% of pay before 10 years.

CITY OF CARBONDALE AGGREGATE PENSION FUND
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendation

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

Police and Firemen's Pension Plans

- Failure To Pay The Minimum Municipal Obligations Of The Plans

  The city partially complied with our prior audit recommendation by depositing the outstanding 2012 and 2013 minimum municipal obligations (MMOs) due to the police and firemen's pension plans during 2014. The city also calculated and deposited the interest due for the late deposits of the 2011 and 2012 MMOs and a portion of the interest due for the late deposit of the 2013 MMOs also during 2014. However, the interest amounts determined for the late payment of the 2013 MMOs were not calculated in accordance with the provisions of Section 302(e) of Act 205, since the interest paid did not reflect the total interest due going back to January 1 of the year the 2013 MMOs were originally due as further discussed in Finding No. 3 contained in this report.

Noncompliance With Prior Audit Recommendations

The City of Carbondale has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

Firemen's Pension Plan

- Provision Of Benefits In Excess Of The Third Class City Code

Police Pension Plan

- Pension Benefits In Excess Of The Third Class City Code

Firemen's Pension Plan

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Provision Of Benefits In Excess Of The Third Class City Code

Condition: As disclosed in the prior audit report, whereas the city previously adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 et seq. (previously 53 P.S. § 1-101 et seq.), our audit determined that the city continues to provide a cost of living allowance to its firefighters in excess of the restrictions found in the Third Class City Code, as follows:

Benefit	Governing Document/Collective Bargaining Agreement	Third Class City Code
Cost-of-living allowances	Firemen who retire on or after January 1, 1993, shall receive an increase of 2.5% on the third anniversary of retirement and each year thereafter.	Increases shall be in conformity with a uniform scale with the total benefit limited to 50% of the current salary of the firemen of the highest pay grade.

Criteria: As previously cited, on January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee.* Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), "clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law including Act 600." The court's holding was in accord with the position taken by this Department since at least January 1995.

Cause: Plan officials were unable to amend the cost of living provision through the collective bargaining process.

Effect: The current cost of living provision may result in retirees receiving benefits in excess of Third Class City Code provisions.

Firemen's Pension Plan – (Continued)

Finding No. 1 – (Continued)

Recommendation: We again recommend that the city restrict pension benefits to those authorized by the Third Class City Code for all employees who began full-time employment on or after January 24, 2001 (the date *Monroeville* was issued) upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to provide benefits in excess of those authorized by the Third Class City Code to employees who began employment on or after January 24, 2001, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the plan's future state aid allocations and submit this information to the Department.

Management's Response: City officials disagreed with the recommendation and indicated that if the department is asserting that pension benefits are limited to 50 percent; and a 2.5 percent COLA immediately puts that retiree above the 50 percent threshold, then the city understands, but according to city officials, that is not how the finding is written. The audit finding references 50 percent of the current salary of firemen and without a concrete example, the city cannot indicate for sure that the City of Carbondale is in violation of the Third Class City Code. In addition, this COLA is part of a collective bargaining agreement that is subject to Act 111's binding arbitration proceedings. Until the Pennsylvania Legislature recognizes the importance of Act 111 reform, questionable benefits inherited from previous administrations will be forced to sit dormant.

Auditor's Conclusion: The Department is aware that the COLA provision is subject to the collective bargaining process; however, since the COLA provision is not limited to the threshold prescribed by the Third Class City Code for those firefighters hired after January 1, 2001, it is possible that future retirees may receive pension benefits in excess of Third Class City Code provisions; therefore, the finding remains as stated. The Department will continue to monitor the city's compliance with the finding recommendation during future audits of the plan.

Police Pension Plan

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefits In Excess Of The Third Class City Code

Condition: As disclosed in the prior audit report, the pension plan's governing document grants benefits that are not authorized by the Third Class City Code. In February 2013, the city created a one-time Retirement Incentive Program for full-time police officers with at least 20 years of service as of February 19, 2013. The city amended the incentive program in March 2013 to include an incentive for any full-time police officer eligible for a disability pension as of March 18, 2013. In addition, there was no cost estimate provided for either incentive determining the financial impact on the pension plan before the retirement incentives were adopted.

Section 27-19 A (3) of File of the Council No. 3 of 2013 states:

> The City of Carbondale shall fund an additional fifteen percent (15%) incentive above and beyond the defined benefit statutory limit of fifty percent (50%) – to be calculated by adding fifteen percent (15%) of the base monthly pension compensation to the base monthly pension compensation. This incentive will be funded from the City of Carbondale General Fund for the officer's lifetime, and shall terminate promptly upon the officer's death.

Section 27-19 A (4) of File of the Council No. 3 of 2013 states:

> The City of Carbondale shall fund a one and one half percent (1.5%) Cost-of-Living-Increase (COLA) on a yearly basis for any officer that completed more than twenty (20) years of service – to be calculated by adding one and one half percent (1.5%) of the base monthly pension compensation to the base monthly pension compensation – to become effective and payable: January 1, 2015. This COLA shall compound each year based on the base monthly pension compensation, but it shall not affect the base monthly pension compensation or the fifteen percent (15%) incentive being paid from the City's General Fund – as outlined in sub-section (3) above. This incentive will be funded from the City of Carbondale General Fund for the officer's lifetime, and shall terminate promptly upon the officer's death.

Police Pension Plan – (Continued)

Finding No. 2 – (Continued)

Section 27-19 B (3) of File of the Council No. 4 of 2013 states:

> The City of Carbondale shall fund an additional ten percent (10%) incentive above and beyond the disability pension (40%), but within the defined benefit statutory limit of fifty percent (50%) – to be calculated by adding ten percent (10%) of the base monthly pension compensation to the base monthly pension compensation. This incentive will be funded from the City of Carbondale General Fund for the officer's lifetime, and shall terminate promptly upon the officer's death.

Section 27-19 B (4) of File of the Council No. 4 of 2013 states:

> The City of Carbondale shall fund a one and one half percent (1.5%) Cost-of-Living-Increase (COLA) on a yearly basis for any officer eligible for a Disability Pension under Chapter 27 – to be calculated by adding one and one half percent (1.5%) of the base monthly pension compensation to the base monthly pension compensation – to become effective and payable: January 1, 2016. This COLA shall compound each year based on the base monthly pension compensation, but it shall not affect the base monthly pension compensation or the ten percent (10%) incentive being paid from the City's General Fund – as outlined in sub-section (3) above. This incentive will be funded from the City of Carbondale General Fund for the officer's lifetime, and shall terminate promptly upon the officer's death.

The monetary incentives and cost of living increases provided pursuant to the city's Retirement Incentive Program are being funded by the city's general fund, which is not in accordance with the Third Class City Code and Act 205 funding standards. In addition, the monetary incentives being provided to the retirees under File of the Council No. 3 of 2013, and the cost of living increases provided under File of the Council Nos. 3 and 4, are in excess of benefits authorized by the Third Class City Code.

Police Pension Plan – (Continued)

Finding No. 2 – (Continued)

Criteria: Section 4303(a) of the Third Class City Code states:

> Payments for allowances shall not be a charge on any other fund in the treasury of the city or under its control save the police pension fund herein provided for. The basis of the apportionment of the pension shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 4302.1 or retirement, or the highest average annual salary which the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 4302.1 or retirement, whichever is the higher, and except as to service increments provided for in subsection (b) of this section, shall not in any case exceed in any year one-half the annual pay of such member computed at such monthly or average annual rate, whichever is the higher. (Emphasis added)

In addition, Section 4303.1 of the Third Class City Code states:

> Any city may, at any time, at its discretion, upon the recommendation of the persons having custody and management of the police pension fund, increase the allowances of persons receiving allowances of any kind from the police pension fund by reason of and after the termination of the services of any member of said fund. Such increases shall be in conformity with a uniform scale, which may be based on the cost of living, but the total of any such allowances shall not at any time exceed one-half of the current salary being paid patrolmen of the highest pay grade.

Section 305(a) of Act 205 states:

> Prior to the adoption of any benefit plan modification by the governing body of the municipality, the chief administrative officer of each pension plan shall provide to the governing body of the municipality a cost estimate of the effect of the proposed benefit plan modification.

Police Pension Plan – (Continued)

Finding No. 2 – (Continued)

Furthermore, Section 305(b) of Act 205 states, in part:

> If the pension plan is a defined benefit plan which is self-insured in whole or in part, the cost estimate shall be prepared by an approved actuary. . . .

Under Act 205 all pension benefits, whether statutorily authorized or not, must be paid from the appropriate pension fund, reflected in the plan's actuarial valuation reports, and funded in accordance with the act's standards.

Cause: City officials failed to establish adequate internal control procedures to ensure that all retirement benefit modifications were in accordance with Third Class City Code provisions and were accompanied by cost studies to determine the financial impact on the plan prior to their adoption.

Effect: The city is paying pension benefits to 4 retirees in excess of those benefits authorized by the Third Class City Code. During 2013 and 2014, the retirees received excess benefits totaling $2,326 per month, which totaled approximately $46,903. During 2015, the retirees are receiving excess benefits totaling $2,528 per month, which totaled approximately $15,167 through the date of this audit report.

Recommendation: We again recommend that the city consult with its solicitor to determine the city's benefit obligations to the affected retirees. In addition, the city should contact the Public Employee Retirement Commission (PERC) to determine the proper reporting of these benefits on future actuarial valuation reports. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by the Third Class City Code, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the city's future state aid allocations and submit this information to the department. If it is determined the excess benefits had an impact on the city's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

Furthermore, we recommend that all future pension benefit modifications should be preceded by a cost estimate which has been prepared by a qualified person to determine the monetary effect of the proposed modifications to the plan.

Police Pension Plan – (Continued)

Finding No. 2 – (Continued)

Management's Response: The City disagrees with this department's recommendation. The city continues to stand by its position that there is a fundamental difference between a "Retirement Incentive" and a "Pension Benefit" and that all parties involved with drafting and approving the Police Retirement Incentive Program had numerous discussions with one another (City Council included), the solicitor, pension actuary and labor attorneys prior to and during the entire process. The city attempted to remain compliant with the law by focusing efforts and resources on developing a financial incentive that's sole goal would be to induce retirement.

More specifically, officials contends that the city it is not paying any pensioner that took advantage of the Retirement Incentive Program a monthly pension benefit above 50% of their annual pay. The basis for apportionment used to calculate the 50% benefit amount for the retirees from the police department was done in compliance with the Third Class City Code. While the Retirement Incentive Program does provide a monetary incentive for those officers who opted-in to retire from the Department within a prescribed time frame, the pensioners are only receiving the maximum pension benefit of 50% of their annual salary.

Also, retirees are issued a 1099-MISC form from the Finance Department for this incentive instead of a 1099R which would be for retirement pension benefits, which further evidences the City's position that this incentive is NOT a pension benefit.

Further, the City cites that this finding also references a violation of 3rd Class City Code for paying pension benefits from the General Fund. The City contends that it is NOT paying any portion of retirees' pension benefits from the city's general fund. Once again, the City believes there is a fundamental difference between "Pension Benefits" and a "Retirement Incentive". And while the City admittedly used the same data to calculate both the pension benefit and the Retirement Incentive Program, the City's Ordinances (File of Council No. 3; 2013 and File of Council No. 4; 2013) very clearly establish the Retirement Incentive Program in a completely separate and new Article (27 - 6) of the City Code.

In addition, the city cites that its own pension code (27-2(c)), which states in part: "Payments required under the plan shall not be a charge on any other fund in the treasury of the City of Carbondale." Once again, because this Retirement Incentive Program is NOT required under the plan, the City's interpretation is that it would not be precluded from being paid directly from the General Fund.

Police Pension Plan – (Continued)

Finding No. 2 – (Continued)

Finally, as the finding references a violation of Act 205, whereby the City failed to conduct a study to determine the effect the Retirement Incentive Program would have on the pension plan, in this case, no cost study was done for the Retirement Incentive Program because the City contends that there were no changes made to the pension plan. All of the incentives were adopted and provided outside the scope of the plan. Seeing that there is no direct financial effect on the pension plan, Officials find it burdensome to conduct and pay for a study now, after the fact, when the city clearly evidenced and admits that the Retirement Incentives are not coming from the pension plan. The City states that the Retirement Incentive Program will save taxpayers of the City an estimated $548,127 over the next 4 years which is monumental considering the City's general fund is roughly 5.8 million per year.

Auditor's Conclusion: Despite the City's efforts to characterize these additional benefits as something other than "pension benefits," they are paid as pension benefits are and expire only when the member passes away. These additional benefits are "allowances" as they are regularly occurring payments attributable to the retirement of the pension plan member and are no different than any other pension payment in terms of their regularity or schedule of payment. Simply calling a pension benefit by another term does not remove it from what it actually is and the City's position that these are a "retirement incentive," not a "pension benefit" is of no legal significance. All payments are post-retirement/after-service payments and are recurring until the death of the member. Therefore, based on the criteria previously cited, the finding remains as stated.

Police and Firemen's Pension Plans

Finding No. 3 – Partial Compliance With Prior Audit Recommendation – Failure To Pay The Minimum Municipal Obligations Of The Plans

Condition: As disclosed in the Status of Prior Findings section of this report, the city partially complied with our prior audit recommendation by depositing the outstanding 2012 and 2013 minimum municipal obligations (MMOs) due to the police and firemen's pension plans during 2014. The city also calculated and deposited the interest due for the late deposits of the 2011 and 2012 MMOs and a portion of the interest due for the late deposit of the 2013 MMOs also during 2014. However, the interest amounts determined for the late payment of the 2013 MMOs were not calculated in accordance with the provisions of Section 302(e) of Act 205 since the interest paid did not reflect the total interest due going back to January 1 of the year the 2013 MMOs were originally due.

Police and Firemen's Pension Plans – (Continued)

Finding No. 3 – (Continued)

Criteria: Section 302(e) of Act 205 states:

> **Interest penalty on omitted municipal contributions.** 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: City 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 plans could result in the plans not having adequate resources to meet current and future benefit obligations to their members.

Recommendation: We again recommend that the municipality pay the interest due to the pension plans for the late payment of the 2013 MMOs in accordance with Section 302(e) of Act 205.

We also recommend that in the future, plan officials timely pay the full MMOs due the plans in accordance with Act 205 requirements.

Management's Response: Municipal officials agreed with the finding without exception. A calculation of the interest due to the pension plan was completed and the city will deposit the monies as soon as available.

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

Police Pension Plan

Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The city certified 5 ineligible police officers (10 units) and overstated police payroll by $172,715 on the Certification Form AG 385 filed in 2014. The data contained on this certification form is based on prior calendar year information. The city certified members who retired during the year and did not complete six months of full-time employment with the city as required by Act 205.

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 procedures to ensure the accuracy of the data certified.

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 city's state aid allocation was based on unit value, the incorrect certification of pension data affected the city's state aid allocation, as identified below:

Type Of Plan	Units Overstated	Unit Value	State Aid Overpayment
Police	10	$ 3,873	$ 38,730

In addition, the city used the overpayment of state aid to pay the minimum municipal obligations (MMOs) due to the police and firemen's pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plans' MMOs will not be fully paid. Furthermore, the city's future state aid allocations may be withheld until the finding recommendation is complied with.

Police Pension Plan – (Continued)

Finding No. 4 – (Continued)

Recommendation: We recommend that the total excess state aid, in the amount of $38,730, 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 plans, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 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 2 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 and firemen's pension plans' funds, we recommend that any resulting MMO deficiencies be paid to the pension plans with interest, at a rate earned by the pension plans.

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.

CITY OF CARBONDALE AGGREGATE PENSION FUND
POTENTIAL WITHHOLD OF STATE AID

Finding No. 4 contained in this audit report cites an overpayment of state aid to the city in the amount of $38,730. 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 plans, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120.

CITY OF CARBONDALE AGGREGATE PENSION FUND
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, 2009, is as follows:

POLICE PENSION PLAN

	(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)
01-01-09	$ 4,205,322	$ 4,757,201	$ 551,879	88.4%
01-01-11	4,414,627	5,244,892	830,265	84.2%
01-01-13	4,932,574	5,477,190	544,616	90.1%

Note: The market values of the plan's assets at 01-01-09, 01-01-11, and 01-01-13 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 CARBONDALE AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS – (Continued)

FIREMEN'S PENSION PLAN

	(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)
01-01-09	$ 2,440,459	$ 2,694,105	$ 253,646	90.6%
01-01-11	2,729,772	2,897,075	167,303	94.2%
01-01-13	3,084,629	3,336,363	251,734	92.5%

Note: The market values of the plan's assets at 01-01-09, 01-01-11, and 01-01-13 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.

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 CARBONDALE AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	$ 100,099	100.0%
2010	102,623	100.0%
2011	201,598	100.0%
2012	209,113	100.0%
2013	237,597	100.0%
2014	202,527	100.0%

CITY OF CARBONDALE AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES – (Continued)

FIREMEN'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	$ 61,152	100.0%
2010	63,466	100.0%
2011	73,128	100.0%
2012	75,770	100.0%
2013	59,970	100.0%
2014	63,881	100.0%

CITY OF CARBONDALE AGGREGATE PENSION FUND
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:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2013
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	5.0%
Cost-of-living adjustments	1.0% per year postretirement

CITY OF CARBONDALE AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	8 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	2.5% per year postretirement

CITY OF CARBONDALE AGGREGATE PENSION FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

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Lackawanna County
1 North Main Street
Carbondale, PA 18407

The Honorable Justin M. Taylor	Mayor
Dr. Joseph Marzzacco	Council President
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