

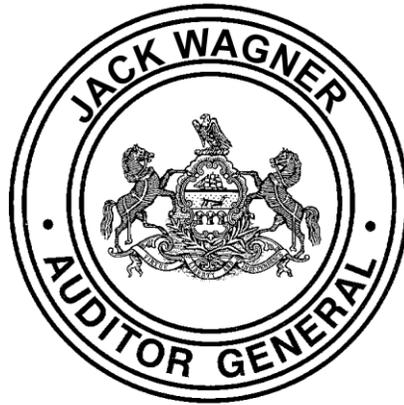
HUGHESTOWN BOROUGH POLICE PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



HUGHESTOWN BOROUGH POLICE PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007

CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Payment Of An Unauthorized Survivor Benefit Resulting In An Overpayment Of State Aid	6
Finding No. 2 – Undocumented Pension Benefit Paid.....	7
Supplementary Information	9
Report Distribution List	13

BACKGROUND

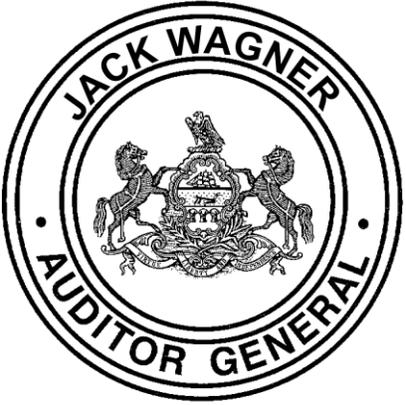
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Hughestown Borough Police Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 581 - The Borough Code, Act of February 1, 1966 (P.L. 1656, No. 581), Article XI(f), Police Pension Fund in Boroughs Having a Police Force of Less Than Three Members, as amended, 53 P.S. § 46131 et seq.

The Hughestown Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 6 of 2005. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers.



The Honorable Mayor and Borough Council
Hughestown Borough
Luzerne County
Hughestown, PA 18640

We have conducted a compliance audit of the Hughestown Borough Police Pension Plan for the period January 1, 2005, to December 31, 2007. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits 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 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.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Hughestown Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the borough's internal control structure as it relates to the borough's compliance with those requirements. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Hughestown 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 Audit Recommendation –
Payment Of An Unauthorized Survivor Benefit Resulting In
An Overpayment Of State Aid

Finding No. 2 – Undocumented Pension Benefit Paid

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Hughestown Borough and, where appropriate, their responses have been included in the report.

February 11, 2009

JACK WAGNER
Auditor General

HUGHESTOWN BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Hughestown Borough has complied with the prior audit recommendations concerning the following:

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

The municipality deposited the outstanding balance of the 2002 state aid allocation, plus interest, into the police pension plan; and

- Plan's Governing Document Fails To Contain A Service-Related Disability Benefit Provision

Municipal officials adopted Ordinance No. 6 of 2005, which restated the police pension plan's governing document in its entirety and included a service-related disability benefit provision.

Partial Compliance With Prior Audit Recommendation

Hughestown Borough has partially complied with the prior audit recommendation concerning the following:

- Payment Of An Unauthorized Survivor Benefit

The borough determined that it is obligated to pay the unauthorized survivor benefit. In compliance with the prior audit recommendation, the benefit is paid from the police pension plan, included in the plan's actuarial valuation report and funded in accordance with Act 205 funding standards. In addition, the plan's actuary has determined the effect of the unauthorized survivor benefit on the borough's state aid allocations received in the years 2006, 2007 and 2008, and submitted this information to the department. However, as disclosed in Finding No. 1 contained in this report, the impact of the payment of the unauthorized survivor benefit on the borough's state aid allocations has resulted in receipt of excess state aid which needs to be reimbursed to the Commonwealth.

Rescission Of Prior Audit Recommendation

The following prior audit recommendation has been rescinded:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Municipal officials provided documentation to support the police officer's original inclusion on the 2004 Certification Form AG 385. Therefore, the prior audit recommendation has been rescinded.

HUGHESTOWN BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Payment Of An Unauthorized Survivor Benefit Resulting In An Overpayment Of State Aid

Condition: As disclosed in the prior audit report, an active member of the police pension plan died on April 22, 2003. Effective October 1, 2003, his surviving spouse was improperly awarded a survivor benefit, retroactive to April 2003. The benefit awarded to the surviving spouse is not authorized by the plan's governing document and municipal officials were unable to provide any documentation to support the amount or basis of the benefit being paid. Furthermore, the benefit is not authorized by Act 581 since the plan member was not killed in service nor retired based on a service-related disability.

During the current audit period, the borough determined that it is obligated to pay the unauthorized survivor benefit. In compliance with the prior audit recommendation, the benefit is paid from the police pension plan, included in the plan's actuarial valuation report and funded in accordance with Act 205 funding standards. In addition, the plan's actuary submitted Certification Form AG-MP-1 which determined the effect of the payment of the unauthorized survivor benefits on the borough's state aid allocations for the years 2006, 2007 and 2008. Based on the data certified, the municipality received excess state aid in the years 2006, 2007, and 2008 in the amounts of \$4,788, \$5,240, and \$4,642, respectively, totaling \$14,670.

Criteria: The plan's governing document in effect at the time of the deceased police officer's retirement, Resolution No. 1 of 1981, as amended, does not provide for a survivor benefit.

Furthermore, Act 581, at Section 1131, states, in part:

All pension funds established under the provisions of this section shall be under the direction of the borough council, or such committee as it may designate, and shall be applied under such regulations as the council may by ordinance prescribe for the benefit of such members of the police force as shall receive honorable discharge therefrom by reason of age or disability and the families of such as may be injured or killed in the service (emphasis added). Any allowances made to those who are retired by reason of disability or age shall be in conformity with a uniform scale.

Cause: Municipal officials were not aware that the excess state aid received that is attributable to the payment of the unauthorized survivor benefit needs to be reimbursed to the Commonwealth.

Effect: The pension plan has paid \$35,500 in unauthorized survivor benefits from April 1, 2003, through the date of this report. Providing unauthorized benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses.

HUGHESTOWN BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, the payment of the unauthorized survivor benefit has resulted in the borough receiving allocations of state aid in excess of its entitlement and has increased the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that the borough review the continued payment of the unauthorized survivor benefit with its solicitor.

In addition, we recommend that the borough reimburse the \$14,670 of excess state aid received in the years 2006, 2007, and 2008 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 plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with evidence of payment.

Management's Response: Municipal officials will respond upon receipt of the audit report.

Finding No. 2 – Undocumented Pension Benefit Paid

Condition: A member of the police pension plan who terminated employment on December 31, 2002, was awarded a service-related disability benefit in March of 2007, retroactive to September 1, 2006. Municipal officials were unable to provide documentation to support the justification for the benefit being paid. The member was 51 years of age and earned 13.5 years of credited service at the time of his termination of employment. Newly appointed plan officials indicated that it was their understanding the borough was required to pay the individual a service-related disability benefit based on a lawsuit filed against the borough that went into arbitration for several years and was finally settled against the borough.

Criteria: According to the plan's governing document in effect at the time of the member's termination of employment, Resolution No. 1 of 1993, stated:

Each participant who has been in the employ of Hughestown Borough for 20 years in the aggregate and who has attained the age of 55 years may retire with a monthly pension benefit of not greater than 50 percent of his normal average salary for a period not greater than the last 60 months of employment.

HUGHESTOWN BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, the payment of service-related disability benefits should be supported with adequate documentation that evidences the timing and nature of the member’s disability, such as medical reports obtained from a physician.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that pension benefits paid were supported by adequate documentation.

Effect: The plan is paying a pension benefit without appropriate documentation to support the propriety of the payments.

Recommendation: We recommend that borough officials obtain documentation to support the validity of the service-related disability benefit payments and provide this information to the Department. If the borough is unable to provide evidence that the payment of the benefits is authorized, 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: Municipal officials have attempted to obtain the information from prior plan officials and the previous plan custodian, but have been unsuccessful at obtaining such documentary evidence.

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

HUGHESTOWN 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 171,263	\$ 172,320	\$ 1,057	99.4%	\$ 55,057	1.9%
01-01-05	178,678	101,857	(76,821)	175.4%	30,305	(253.5%)
01-01-07	186,835	164,887	(21,948)	113.3%	32,839	(66.8%)

HUGHESTOWN 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

HUGHESTOWN 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
2002	\$ 9,607	100.0%
2003	9,665	104.7%
2004	922	502.0%
2005	7,034	101.2%
2006	7,329	113.5%
2007	5,153	100.7%

HUGHESTOWN BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required 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, 2007
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	5.0%
Projected salary increases	4.0%

HUGHESTOWN BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Hughestown Borough Police Pension Plan
Luzerne County
42 Center Street
Hughestown, PA 18640

The Honorable Paul T. Hindmarsh	Mayor
Ms. Barbara Gatto	Council President
Ms. Angela Acierno	Secretary/Treasurer

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.