

COMPLIANCE AUDIT

City of Nanticoke Paid Firemen's Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

December 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 City Council
City of Nanticoke
Luzerne County
Nanticoke, PA 18634

We have conducted a compliance audit of the City of Nanticoke Paid Firemen's Pension Plan for the period January 1, 2016 to December 31, 2017. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, 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.
- We determined whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

City of Nanticoke contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

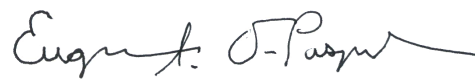
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Nanticoke Paid Firemen's Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the City of Nanticoke Paid Firemen's Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 City of Nanticoke 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.

December 10, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Supplementary Information	3
Report Distribution List	9

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 Nanticoke Paid Firemen's Pension Plan is also governed by implementing regulations adopted by the former 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 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67),
(formerly 317) as amended, 11 Pa. C.S. § 10101 et seq.

The City of Nanticoke Paid Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 15-2007, as amended, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established January 1, 1986. Active members are required to contribute 3 percent of compensation to the plan. As of December 31, 2017, the plan had 10 active members, no terminated members eligible for vested benefits in the future, and 9 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

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

Retirement Benefit:

Benefits equals 50% of average monthly pay based on highest 5 consecutive years of employment or pay at retirement, if greater, plus a monthly service increment (maximum \$100) of 1/40th of the basic pension benefit per year of service over 20 and before age 65.

Survivor Benefit:

Benefit equals 100% of benefit to surviving spouse.

Service Related Disability Benefit:

Benefit equal to 50% of average monthly pay at time of disability.

CITY OF NANTICOKE PAID FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016, AND 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability			
Service cost	\$ 77,668	\$ 81,551	\$ 87,164
Interest	276,702	291,359	315,783
Difference between expected and actual experience	-	-	38,113
Changes of assumptions	-	-	63,685
Benefit payments, including refunds of member contributions	<u>(175,033)</u>	<u>(175,033)</u>	<u>(175,033)</u>
Net Change in Total Pension Liability	179,337	197,877	329,712
Total Pension Liability - Beginning	<u>3,468,622</u>	<u>3,647,959</u>	<u>3,845,836</u>
Total Pension Liability - Ending (a)	<u><u>\$ 3,647,959</u></u>	<u><u>\$ 3,845,836</u></u>	<u><u>\$ 4,175,548</u></u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 198,440	\$ 196,325	\$ 203,541
Contributions - member	16,864	18,848	20,315
Net investment income	(63,089)	157,028	372,579
Benefit payments, including refunds of member contributions	<u>(175,033)</u>	<u>(175,033)</u>	<u>(175,033)</u>
Administrative expense	<u>(4,600)</u>	<u>-</u>	<u>(6,500)</u>
Net Change in Plan Fiduciary Net Position	(27,418)	197,168	414,902
Plan Fiduciary Net Position - Beginning	<u>2,534,548</u>	<u>2,507,130</u>	<u>2,704,298</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 2,507,130</u></u>	<u><u>\$ 2,704,298</u></u>	<u><u>\$ 3,119,200</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 1,140,829</u></u>	<u><u>\$ 1,141,538</u></u>	<u><u>\$ 1,056,348</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.73%	70.32%	74.70%
Estimated Covered Employee Payroll	\$ 558,244	\$ 643,146	\$ 672,823
Net Pension Liability as a Percentage of Covered Employee Payroll	204.36%	177.49%	157.00%

CITY OF NANTICOKE PAID FIREMEN'S PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city as of December 31, 2016 and 2017, calculated using the discount rate of 8.0%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability - 12/31/16	\$ 1,608,715	\$ 1,141,538	\$ 749,334
Net Pension Liability - 12/31/17	\$ 1,564,263	\$ 1,056,348	\$ 631,549

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2008	\$ 68,336	\$ 149,813	\$ (81,477)	\$ -	-
2009	80,505	114,553	(34,048)	-	-
2010	82,395	112,976	(30,581)	-	-
2011	150,522	155,972	(5,450)	-	-
2012	153,646	153,646	-	-	-
2013	127,021	127,021	-	-	-
2014	129,371	129,371	-	537,960	24.05%
2015	198,440	198,440	-	558,244	35.55%
2016	196,325	196,325	-	643,146	30.53%
2017	203,541	203,541	-	672,823	30.25%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

CITY OF NANTICOKE PAID FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2017	13.83%
2016	6.33%

CITY OF NANTICOKE PAID FIREMEN'S 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, 2013, 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)
01-01-13	\$ 2,368,992	\$ 3,397,666	\$ 1,028,674	69.7%
01-01-15	2,564,169	3,468,622	904,453	73.9%
01-01-17	2,912,829	3,947,634	1,034,805	73.8%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period and will be limited to a maximum of 120 percent and 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.

CITY OF NANTICOKE PAID FIREMEN'S 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.

CITY OF NANTICOKE PAID FIREMEN'S 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	8 years
Asset valuation method	5-year smoothing with the actuarial value of assets limited to a maximum of 120% and a minimum of 80% of the fair market value of assets
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

CITY OF NANTICOKE PAID FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Richard Wiaterowski
Mayor

Mr. William Brown
Council President

Mr. Kevin Coughlin
Council Vice President

Mr. John Pietrzyk
Councilor

Ms. Lesley Butczynski
Councilor

Ms. Nicole Colatosti-Mackiewicz
Councilor

Ms. Donna M. Wall
Interim City Manager

Ms. Jennifer Polito
City Clerk

This report is a matter of public record and is available online at 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.