

# COMPLIANCE AUDIT

---

## Forty Fort Borough Police Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

---

August 2019



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  
Forty Fort Borough  
Luzerne County  
Forty Fort, PA 18704

We have conducted a compliance audit of the Forty Fort Borough Police Pension Plan for the period January 1, 2015 to December 31, 2018. 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 whether retirement benefits calculated for the plan member who retired 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 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 contractual agreement with the Pennsylvania State Association of Boroughs were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Forty Fort Borough Police 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 borough's internal controls as they relate to the borough'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 Forty Fort Borough Police 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. However, **we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 69.6% as of January 1, 2017**, which is the most recent data available. We encourage borough officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Forty Fort Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

August 7, 2019



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 Forty Fort Borough Police 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Forty Fort Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1986-6, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established December 15, 1959. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 4 active members, no terminated members eligible for vested benefits in the future, and 8 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2018, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 55 and 25 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

### Retirement Benefit:

Benefit equals 50% of average monthly compensation based on last 36 months of employment plus an incremental monthly pension of \$100 per month for the completion of 26 or more years of service, to a maximum of \$500.

### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

### Service Related Disability Benefit:

Benefit equals 65% of average monthly compensation reduced by Social Security disability benefits received for the same injury. The minimum pension is 50% of the member's monthly salary at the time of disability less Social Security disability benefits received for the same injury.

FORTY FORT BOROUGH POLICE 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, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 50,259	\$ 48,405	\$ 50,583	\$ 27,465	\$ 28,701
Interest	155,643	159,358	160,571	176,752	176,337
Change of benefit terms	-	(45,030)	-	-	-
Difference between expected and actual experience	-	(13,611)	-	240,171	-
Changes of assumptions	-	86,824	-	7,526	-
Benefit payments, including refunds of member contributions	(171,036)	(187,291)	(197,930)	(211,240)	(211,515)
Net Change in Total Pension Liability	<u>34,866</u>	<u>48,655</u>	<u>13,224</u>	<u>240,674</u>	<u>(6,477)</u>
Total Pension Liability – Beginning	2,258,736	2,293,602	2,342,257	2,355,481	2,596,155
Total Pension Liability – Ending (a)	<u>\$ 2,293,602</u>	<u>\$ 2,342,257</u>	<u>\$ 2,355,481</u>	<u>\$ 2,596,155</u>	<u>\$ 2,589,678</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 111,267	\$ 135,941	\$ 119,728	\$ 116,576	\$ 151,444
Contributions – state aid	43,577	58,811	68,145	67,203	55,354
Contributions – member	11,709	10,297	8,798	9,846	9,880
Net investment income	94,659	(11,005)	76,550	219,813	(88,429)
Benefit payments, including refunds of member contributions	(171,036)	(187,291)	(197,930)	(211,240)	(211,515)
Administrative expense	(18,873)	(19,208)	(15,722)	(19,164)	(16,354)
Net Change in Plan Fiduciary Net Position	<u>71,303</u>	<u>(12,455)</u>	<u>59,569</u>	<u>183,034</u>	<u>(99,620)</u>
Plan Fiduciary Net Position – Beginning	1,610,527	1,681,830	1,669,375	1,728,944	1,911,978
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,681,830</u>	<u>\$ 1,669,375</u>	<u>\$ 1,728,944</u>	<u>\$ 1,911,978</u>	<u>\$ 1,812,358</u>
Net Pension Liability – Ending (a-b)	<u>\$ 611,772</u>	<u>\$ 672,882</u>	<u>\$ 626,537</u>	<u>\$ 684,177</u>	<u>\$ 777,320</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.3%	71.3%	73.4%	73.6%	70.0%
Estimated Covered Employee Payroll	\$ 208,286	\$ 235,680	\$ 191,258	\$ 168,804	\$ 196,558
Net Pension Liability as a Percentage of Covered Employee Payroll	293.7%	285.5%	327.6%	405.3%	395.5%



FORTY FORT BOROUGH POLICE 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 borough as of December 31, 2014, 2015, 2016, 2017, and 2018, calculated using the discount rate of 7.00%, as well as what the borough'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 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net Pension Liability – 12/31/14	\$ 849,315	\$ 611,772	\$ 410,685
Net Pension Liability – 12/31/15	\$ 922,395	\$ 672,882	\$ 462,199
Net Pension Liability – 12/31/16	\$ 882,811	\$ 626,537	\$ 410,386
Net Pension Liability – 12/31/17	\$ 929,865	\$ 684,177	\$ 475,812
Net Pension Liability – 12/31/18	\$ 1,020,736	\$ 777,320	\$ 571,041

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
2014	\$ 154,844	\$ 154,844	\$ -	\$ 208,286	74.34%
2015	194,752	194,752	-	235,680	82.63%
2016	187,873	187,873	-	191,258	98.23%
2017	183,779	183,779	-	168,804	108.87%
2018	206,798	206,798	-	196,558	105.21%

FORTY FORT BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	-4.63%
2017	12.71%
2016	4.59%
2015	-0.72%
2014	6.14%

FORTY FORT 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, 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	\$ 1,293,230	\$ 2,227,307	\$ 934,077	58.1%
01-01-15	1,681,830	2,366,815	684,985	71.1%
01-01-17	1,811,815	2,603,178	791,363	69.6%

Note: The market values of the plan’s assets at 01-01-13 and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a five-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.

FORTY FORT 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.

FORTY FORT 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	6 years
Asset valuation method	5-year smoothing, 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	4.5%
Cost-of-living adjustments	4.0%, per year postretirement

FORTY FORT 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 Andrew Tuzinski**  
Mayor

**Mr. Jeffrey McLaughlin**  
Council President

**Mr. Thomas Murray**  
Council Vice-President

**Mr. Frank Mazza**  
Councilman

**Ms. Deborah Troy**  
Councilwoman

**Mr. Dominic Butchko**  
Councilman

**Mr. David Sieminski**  
Councilman

**Ms. Cara R. Devine**  
Councilwoman

**Ms. Bonnie Arnone**  
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).