

# COMPLIANCE AUDIT

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## Tremont Borough Police Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

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January 2020



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 Borough Council  
Tremont Borough  
Schuylkill County  
Tremont, PA 17981

We have conducted a compliance audit of the Tremont Borough Police Pension Plan for the period January 1, 2017 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 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 LPE 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. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior LPE 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 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2013 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- 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 all of the plan's allocated insurance contracts, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

The borough has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, as amended, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Tremont 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 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 Tremont 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 Recommendation – Failure To File Actuarial Valuation Report
- Finding No. 2 – Partial Compliance With Prior Recommendation – Failure To Fund Members' Accounts
- Finding No. 3 – Noncompliance With Prior Recommendation – Custodial Account Records Not Maintained By The Municipality

The findings contained in this audit report repeat conditions that were cited in our previous LPE report that have not been corrected by borough officials. We are concerned by the borough's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

The contents of this report were discussed with officials of Tremont 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.

December 12, 2019



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 Tremont 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.

The Tremont Borough Police Pension Plan is a single-employer pension plan locally controlled by the provisions of Ordinance No. 3-1975, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established December 6, 1948. Active members are not required to contribute to the plan. The municipality maintains a pension plan with no defined contributions and variable pension or retirement benefits provided, usually through discretionary purchases of insurance or annuity contracts. As of December 31, 2018, the plan had 2 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

TREMONT BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Recommendations

Tremont Borough has partially complied with the prior recommendations concerning the following:

- Failure To File Actuarial Valuation Report

The borough completed the January 1, 2015 Act 205 actuarial valuation report and submitted it to the Municipal Pension Reporting Program on April 10, 2018; however, plan officials failed to complete the January 1, 2017 Act 205 actuarial valuation report and submit it to the Municipal Pension Reporting Program as further discussed in the Findings and Recommendations section of this report; and

- Failure To Fund Members' Accounts

In February and July of 2019, the borough deposited the contributions due to the members' accounts for the years 2016 and 2017; however, plan officials failed to deposit the contributions due to the members' accounts for the year 2018 as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Recommendation

Tremont Borough has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Custodial Account Records Not Maintained By The Municipality

TREMONT BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Recommendation – Failure To File Actuarial Valuation Report**

Condition: As disclosed in the Status of Prior Findings section of this report, the borough submitted the January 1, 2015 actuarial valuation report for the police pension plan to the Municipal Pension Reporting Program (formerly the Public Employee Retirement Commission) on April 10, 2018, which had been due on March 31, 2016; however, the borough failed to submit actuarial valuation report form PC-201A for the police pension plan with a valuation date of January 1, 2017, to the Municipal Pension Reporting Program by the March 31, 2018, deadline, as required by Act 205 and the report remained delinquent at the completion of our audit fieldwork.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

In addition, Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.



TREMONT BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Finally, Section 402(e)(7) of Act 205 states, in part:

Any municipality which has not filed with the commission on a timely basis, pursuant to the applicable municipal pension plan actuarial reporting law, an actuarial report for each of the municipal pension plans which it has established or maintains shall be entitled to receive as general municipal pension system State aid, at such time as compliance with the actuarial reporting requirement occurs, the adjusted amount of general municipal pension system State aid per unit . . . .

Cause: Plan officials failed to adopt adequate internal control procedures to ensure full compliance with the recommendation in the prior LPE report.

Effect: Due to the late filing of the January 1, 2015 Act 205 actuarial valuation reports for both the police and non-uniformed pension plans, the borough's 2016 and 2017 state aid allocations were not able to be released until the necessary reports were filed. Therefore, state aid in the amounts of \$11,620 for 2016 and \$16,462 for 2017 was not released until April 2018, whereas state aid was released in September of the respective years to those municipalities who submitted their reports by the filing deadline. As a result, the borough did not have its state aid available timely to use for operating expenses and investment opportunities. In addition, data from the January 1, 2017 Act 205 actuarial valuation reports is necessary to calculate the borough's 2018 and 2019 state aid allocations; therefore, the borough's 2018 and 2019 state aid allocations cannot be calculated and released until the necessary reports are filed for both the police and non-uniformed pension plans. Furthermore, the plan may receive less state aid than it would have received had the reports been filed in a timely manner.

Recommendation: We recommend that the municipality take immediate action to complete the January 1, 2017 Act 205 actuarial valuation report, which was due by March 31, 2018 and submit it to the Municipal Pension Reporting Program, 321 Finance Building, Harrisburg, PA 17120. By submitting the report as soon as possible, the municipality can minimize the length of time the pension aid will be withheld due to the delinquent filing of the required report.

Furthermore, to insure that future actuarial filing deadlines are met and to improve pension plan administration, we again recommend that plan officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the actuarial valuation report filing date.

TREMONT BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Management's Response: Borough officials agreed with the finding without exception. At our exit conference held on September 25, 2019, borough officials indicated that they have received the completed January 1, 2017 actuarial valuation report from their pension plan consultant and will submit it to the Municipal Pension Reporting Program as soon as possible.

Auditor's Conclusion: The January 1, 2017 actuarial valuation report was received by the Municipal Pension Reporting Program on October 25, 2019, which will enable the calculation and release of the 2018 and 2019 state aid allocations to the borough.

**Finding No. 2 – Partial Compliance With Prior Recommendation – Failure To Fund Members' Accounts**

Condition: As disclosed in the Status of Prior Findings section of this report, in February and July of 2019, the borough deposited the contributions due to the members' account for the years 2016 and 2017; however, the borough failed to fund the accounts of the two members for 2018.

Criteria: The plan's governing document, Ordinance No. 7-91, provides that state aid allocated to the borough for the police pension plan shall be irrevocably committed to the Police Pension Fund.

Cause: Borough officials were unable to timely fund the plan for the years 2016 and 2017 because the borough's 2016 and 2017 state aid allocations were not allocated until April 2018 due to the borough's late filing of the January 1, 2015 Act 205 actuarial valuation report. In addition, borough officials have been unable to fund the plan for 2018 because the borough has not received its 2018 state aid allocation due to the borough's failure to file the January 1, 2017 Act 205 actuarial valuation reports for the police and non-uniformed pension plans.

Effect: The failure to properly fund the plan could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

Recommendation: We recommend that the borough deposit the contributions due to the members' accounts for the year 2018, with interest, from the date the deposit should have been made to the date of deposit of the amount in arrears. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

TREMONT BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

We also recommend that, in the future, borough officials properly fund the accounts of all eligible plan members.

Management’s Response: Borough officials agreed with the finding without exception.

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

**Finding No. 3 – Noncompliance With Prior Recommendation – Custodial Account Records Not Maintained By The Municipality**

Condition: The municipality did not maintain copies of allocated insurance contracts or adequate financial records or statements of the custodial account of the police pension plan sufficient to effectively monitor the activity in this account during the years 2017 and 2018. A similar condition for the year 2016 was reported in the prior LPE report.

Criteria: Assets held in allocated insurance accounts for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Plan officials failed to comply with the recommendation in the prior LPE report.

Effect: Although we were able to obtain copies from third-party sources in order to complete our audit procedures, the failure of plan officials to maintain adequate records prohibits municipal officials from effectively monitoring the plan’s financial operations. Inadequate monitoring of the police pension plan account could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We recommend that plan officials obtain copies of the allocated insurance contracts and again recommend that the municipality obtain annual financial statements of transactions in the custodial account of the police pension plan and monitor the statements as to the accuracy and propriety of the transactions. The minimum steps that should be applied by a municipality to adequately monitor the custodial account are:

- Verify the mathematical accuracy of the account statements;

TREMONT BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

- Reconcile the Commonwealth and municipal contributions shown on the account statements to the municipality's records;
- Review investment income for accuracy and reasonableness;
- Reconcile any large or material receipt, other than contributions, shown on the account statements to the municipality's records;
- Determine if investments are in accordance with applicable laws, regulations and policies. Reconcile investment income to the related investments;
- Reconcile pension payments shown on the account statements to the municipality's records; and
- Reconcile any large or material disbursement shown on the account statements to the municipality's records.

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

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

TREMONT BOROUGH POLICE PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2013	\$ 2,889	None
2014	2,942	None
2015	3,013	None
2016	4,528	None
2017	6,585	None
2018	None	None

TREMONT BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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