

# COMPLIANCE AUDIT

---

## Wilson Borough Police Pension Plan Northampton County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

---

December 2022



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
Wilson Borough  
Northampton County  
Easton, PA 18042

We have conducted a compliance audit of the Wilson Borough Police Pension Plan for the period January 1, 2018 to December 31, 2021. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 finding contained in our prior 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 finding contained in our prior 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.
- 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 pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 2020, and 2022, 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 provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

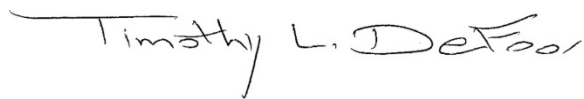
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Wilson Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 Wilson 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 finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

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 Wilson 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending from the start of the name.

Timothy L. DeFoor  
Auditor General  
November 16, 2022

## CONTENTS

|   | <u>Page</u> |
|---|-------------|
| Background.....   | 1           |
| Status of Prior Finding.....  | 2           |
| Finding and Recommendation:   |             |
| Finding – Partial Compliance With Prior Recommendation – Incorrect Data On<br>Certification Form AG 385 Resulting In A Net Overpayment Of State Aid ..... | 3           |
| Supplementary Information .....   | 5           |
| 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.

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 Wilson Borough Police Pension Plan is also governed by implementing regulations 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 Wilson Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 369, 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 8, 1958. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2021, the plan had 14 active members, no terminated members eligible for vested benefits in the future, and 5 retirees receiving pension benefits from the plan.

WILSON BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

Wilson Borough has partially complied with the prior recommendation concerning the following:

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

During the current audit period, the borough reimbursed \$10,188 to the Commonwealth for the net overpayment of state aid received in the years 2015 through 2018; however, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2019 and 2021, as further discussed in the Finding and Recommendation section of this report.

WILSON BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid**

Condition: As disclosed in the Status of Prior Finding section this report, the borough partially complied with the prior recommendation by reimbursing the Commonwealth for the net overpayment of state aid received in the years 2015 through 2018. However, a similar condition occurred during the current audit period. Plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data during the current audit period. The borough certified an ineligible police officer and overstated payroll by \$33,735 on the Certification Form AG 385 filed in 2019. In addition, the borough certified an ineligible non-uniformed employee and overstated payroll by \$15,225 on the Certification Form AG 385 filed in 2021.

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: The inclusion of the ineligible employees was attributable to oversights in each year. Additionally, the borough lacked adequate internal control procedures, such as having another individual review the data certified to ensure compliance with the instructions that accompanied Certification Form AG 385 prior to submission.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough’s state aid allocations were based on pension costs, the incorrect certification of pension data affected the borough’s state aid allocations, as identified below:

| <u>Year</u>                    | <u>Type of Plan</u> | <u>Normal Cost</u> | <u>Payroll Overstated</u> | <u>State Aid Overpayment</u> |
|--------------------------------|---------------------|--------------------|---------------------------|------------------------------|
| 2019                           | Police              | 11.130%            | \$ 33,735                 | \$ 3,755                     |
| 2021                           | Non-Uniformed       | 5.828%             | \$ 15,225                 | \$ 887                       |
| Total Overpayment of State Aid |                     |                    |                           | <u>\$ 4,642</u>              |

In addition, the borough used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the police, non-uniformed, 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.



WILSON BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that the total excess of state aid, in the amount of \$4,642, plus interest, 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 plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 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 two 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, firemen's, and/or non-uniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

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 of the pension plan.

WILSON 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, 2017, is as follows:

|                                | (1)                                    | (2)  | (3)  | (4)                        |
|--------------------------------|--|--|--|----------------------------|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) |
| 01-01-17                       | \$ 4,653,134                           | \$ 3,965,678   | \$ (687,456)   | 117.3%                     |
| 01-01-19                       | 5,106,604                              | 4,220,506  | (886,098)  | 121.0%                     |
| 01-01-21                       | 5,894,425                              | 5,044,283  | (850,142)  | 116.9%                     |

Note: The market values of the plan's assets at 01-01-17, 01-01-19, and 01-01-21 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.

WILSON 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.

WILSON BOROUGH POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

| <u>Year Ended<br/>December 31</u> | <u>Actuarially<br/>Determined<br/>Contribution</u> | <u>Actual<br/>Contributions</u> | <u>Contribution<br/>Deficiency<br/>(Excess)</u> | <u>Covered-<br/>Employee<br/>Payroll</u> | <u>Contributions as<br/>a Percentage of<br/>Covered-<br/>Employee<br/>Payroll</u> |
|-----------------------------------|--|---------------------------------|---|--|---|
| 2012                              | \$ 71,738  | \$ 77,369                       | \$ (5,631)                                      | \$ 621,400                               | 12.5%   |
| 2013                              | 73,178   | 79,312                          | (6,134)   | 634,804                                  | 12.5%   |
| 2014                              | 97,941   | 109,355                         | (11,414)  | 750,676                                  | 14.6%   |
| 2015                              | 99,859   | 114,029                         | (14,170)  | 763,568                                  | 14.9%   |
| 2016                              | 79,169   | 80,880                          | (1,711)   | 969,766                                  | 8.3%  |
| 2017                              | 87,956   | 89,684                          | (1,728)   | 1,046,242                                | 8.6%  |
| 2018                              | 54,533   | 54,533                          | -   | 1,107,634                                | 4.9%  |
| 2019                              | 49,160   | 49,160                          | -   | 1,059,346                                | 4.6%  |
| 2020                              | 57,082   | 57,082                          | -   | 1,199,114                                | 4.8%  |
| 2021                              | 62,270   | 63,642                          | (1,372)   | 1,241,805                                | 5.1%  |

WILSON 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, 2021              |
| Actuarial cost method         | Entry age normal             |
| Amortization method           | Not applicable               |
| Remaining amortization period | None                         |
| Asset valuation method        | Fair value, 5-year smoothing |
| Actuarial assumptions:        |                              |
| Investment rate of return     | 7.25%                        |
| Projected salary increases    | 5.25%                        |

WILSON 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 Donald R. Barrett, Jr.**  
Mayor

**Mr. John Burke IV**  
Council President

**Ms. Jill A. Garcia**  
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).