

FORTY FORT BOROUGH FIREMEN'S PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2004, TO DECEMBER 31, 2006



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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.

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 Forty Fort Borough Firemen's 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.

The Forty Fort Borough Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1990-2, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its firefighters.



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 Firemen's Pension Plan for the period January 1, 2004, to December 31, 2006. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding 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. Forty Fort Borough contracted with an independent certified public accounting firm for annual audits of the Forty Fort Borough Firemen's Pension Plan's financial statements which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to municipal pension funds and to audit municipal pension funds having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Forty Fort Borough Firemen's 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 Forty Fort Borough Firemen's 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 – Noncompliance With Prior Audit Recommendation –
Improper Vested Pension Benefit Calculation

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 Forty Fort Borough and, where appropriate, their responses have been included in the report.

February 8, 2008

JACK WAGNER
Auditor General

FORTY FORT BOROUGH FIREMEN'S PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Forty Fort Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Improper Vested Pension Benefit Calculation

FORTY FORT BOROUGH FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Improper Vested Pension Benefit Calculation

Condition: As disclosed in our prior audit report, the borough improperly recalculated the vested pension benefit of a member who terminated employment on September 14, 1988, pursuant to an ordinance dated March 5, 1990, which amended the plan's trust agreement dated January 1, 1970.

Criteria: On September 14, 1988, the date on which the member terminated employment, the trust agreement dated January 1, 1970, was in effect. At the time of termination, the member's benefit was properly calculated at \$225 per month commencing on the member's normal retirement date of November 1, 2013, or \$75 per month commencing on the member's early retirement date of November 1, 1998.

Cause: Municipal officials believed that amending the plan's original agreement dated January 1, 1970, with the ordinance dated March 5, 1990, would allow for the granting of an additional pension benefit to the former plan member.

Effect: By recalculating this benefit, the pensioner began receiving a benefit of \$449 per month on November 1, 1998, instead of the \$75 per month to which he was entitled pursuant to the governing document in effect on the date he terminated employment. The total excess benefits paid from the plan through the date of this audit report total \$41,097.

Providing unauthorized pension 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. The provision of unauthorized pension benefits may have resulted in the receipt of excess state aid and could increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that the pension benefit of the referenced retiree be adjusted prospectively to the amount authorized by the plan's governing document in effect at the time of the member's termination of employment with the borough. In addition, any excess benefit payments made from the plan will be deemed ineligible for funding with state aid. Accordingly, the pension plan's actuary must determine the impact, if any, of the excess benefit payments on the plan's future state aid allocations and submit this information to the department.

FORTY FORT BOROUGH FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Municipal officials are in the process of working with the borough solicitor and the plan's actuary to decide upon a course of action.

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

FORTY FORT BOROUGH 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2001, 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)]
01-01-01	\$ 742,331	\$ 817,312	\$ 74,981	90.8%	\$ 141,024	53.2%
01-01-03	851,022	705,231	(145,791)	120.7%	107,227	(136.0%)
01-01-05	1,000,105	738,928	(261,177)	135.3%	119,078	(219.3%)

The amounts in the above table have been adjusted, as appropriate, for insurance/annuity contracts maintained preretirement to fund a portion of the benefits provided by the pension plan at retirement.

FORTY FORT BOROUGH 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.

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.

FORTY FORT BOROUGH FIREMEN'S PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

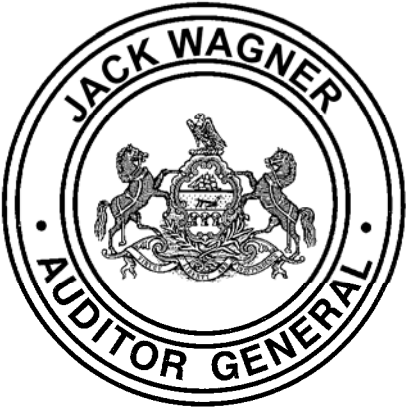
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2001	\$ 51,048	100.0%
2002	49,249	100.0%
2003	44,483	100.0%
2004	None	N/A
2005	None	N/A
2006	12,375	100.0%

FORTY FORT BOROUGH FIREMEN'S 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, 2005
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	7.0%
Projected salary increases	4.5%
Cost-of-living adjustments	4.0%



FORTY FORT BOROUGH FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Forty Fort Borough Firemen's Pension Plan
Luzerne County
1271 Wyoming Avenue
Forty Fort, PA 18704

The Honorable Boyd T. Hoats, Jr.	Mayor
Mr. Joseph Chacke, III	Council President
Ms. Denise Syms	Borough Secretary

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.