

COMPLIANCE AUDIT

City of Carbondale Aggregate Pension Fund

Lackawanna County, Pennsylvania
For the Period
January 1, 2019 to December 31, 2021

October 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Carbondale
Lackawanna County
Carbondale, PA 18407

We have conducted a compliance audit of the City of Carbondale Aggregate Pension Fund for the period January 1, 2019 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 fund 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 fund 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 plans' governing document and applicable laws and regulations by examining the municipality's calculation of the plans' annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plans as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plans in accordance with the plans' governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plans' 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 plans.
- We determined whether retirement benefits calculated for police officers 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We determined that there were no benefit calculations prepared for the years covered by our audit period for the firemen's pension plan.
- We determined whether the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 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 all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions, were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation for pension obligation bonds issued during the current audit period and through the completion of our fieldwork procedures.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Carbondale Aggregate Pension Fund 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.

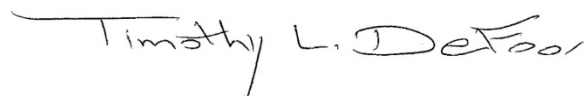
The results of our procedures indicated that, in all significant respects, the City of Carbondale Aggregate Pension Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligations Of The Plans

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by city officials. We are concerned by the city's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 the City of Carbondale 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.



Timothy L. DeFoor
Auditor General
September 22, 2022

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	2
Finding and Recommendation:	
Finding – Noncompliance With Prior Audit Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligations Of The Plans.....	4
Supplementary Information	7
Report Distribution List	14

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 City of Carbondale Aggregate Pension Fund 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 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.
- 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa. C.S. § 101 et seq.

The City of Carbondale Aggregate Pension Fund retains the assets and acts as a common investment and administrative agent for the city's police and firemen's pension plans. The police and firemen's pension plans are single-employer defined benefit pension plans locally controlled by the provisions of Chapter 27 of the city's code of ordinances, adopted pursuant to Act 67. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers and firefighters. The police pension plan was established August 7, 1950 and the firemen's pension plan was established December 19, 1949. Active members of both plans are required to contribute 5 percent of salary to their respective plans.

As of December 31, 2021, the police plan had 10 active members, no terminated members eligible for vested benefits in the future, and 18 retirees receiving pension benefits from the plan.

As of December 31, 2021, the firemen's plan had 6 active members, no terminated members eligible for vested benefits in the future, and 5 retirees receiving pension benefits from the plan.

CITY OF CARBONDALE AGGREGATE PENSION FUND
STATUS OF PRIOR FINDINGS

Status Of Prior Audit Findings

Firemen's Pension Plan

· Provision Of Benefits In Excess Of The Third Class City Code

As disclosed in the prior five audit reports, the collective bargaining agreement between the city and its firefighters continues to provide a cost-of-living allowance to its firefighters in excess of the restrictions found in the Third Class City Code. During the current audit, it was determined that the City has continued to provide a cost-of-living allowance in excess of the restrictions found in the Third Class City Code. The city received its state aid based on unit value during the current audit period, therefore, the city did not receive any state aid attributable to the excess benefits provided. The Department will continue to monitor the effect of the excess benefit on the city's future state aid allocations during subsequent audits of the plan.

Police Pension Plan

· Pension Benefits In Excess Of The Third Class City Code

As disclosed in the prior four audit reports, the plan's governing document grants benefits that are not authorized by the Third Class City Code. The city created a "one-time" Retirement Incentive Program for full-time police officers with at least 20 years of service as of February 19, 2013. The city amended the incentive program in March 2013 to include an incentive for any full-time police officer eligible for a disability pension as of March 18, 2013. Under these incentives the city is paying pension benefits to four retirees in excess of those benefits authorized by the Third Class City Code. Additionally, as disclosed in the prior audit report, the city amended the incentive program in August 2016 for full-time police officers with at least 20 years of service as of July 16, 2016 and under this incentive the city is paying pension benefits to one retiree in excess of those authorized by the Third Class City Code. During the current audit, it was determined that these excess benefits are still being paid to existing retirees. Given the city's position on this matter and considering that the city received its state aid based on unit value during the current audit period and, therefore, did not receive any state aid attributable to the excess benefits provided, the finding will not be repeated in this audit report. The Department will, however, continue to monitor the effect of the excess benefits on the city's future state aid allocations during subsequent audits of the plan.

CITY OF CARBONDALE AGGREGATE PENSION FUND
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendation

The City of Carbondale has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligations Of The Plans

CITY OF CARBONDALE AGGREGATE PENSION FUND
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligations Of The Plans

Condition: As disclosed in the prior two audit reports, plan officials did not properly determine or fully pay the minimum municipal obligations (MMOs) of the police pension plan for the years 2015, 2016, and 2019, and of the firemen’s pension plan for the years 2015 and 2016, as required by Act 205. The MMOs determined by the city for those years understated payroll which, based upon an estimate prepared by this department, resulted in underestimated MMOs of \$6,345, \$4,271, and \$9,176 for the police pension plan for the years 2015, 2016, and 2019, respectively, and \$3,454 and \$2,469 for the firemen’s pension plan for the years 2015 and 2016, respectively. These amounts remained unpaid as of the current audit fieldwork completion. Additionally, during the current audit period, the MMO determined by the city for the police pension plan for the year 2021 understated payroll by \$128,518 which, based upon an estimate prepared by this department, resulted in an underestimated MMO of \$13,670 for the police pension plan for the year 2021. Furthermore, the MMO determined by the city for the firemen’s pension plan for the year 2021 understated payroll by \$98,142 which, based upon an estimate prepared by this department, resulted in an underestimated MMO of \$7,703 for the firemen’s pension plan for the year 2021.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

With regard to the payroll estimate used in the preparation of the MMO, the Pennsylvania Code, Title 16, Section 204.1(c)(1) states, in part:

The payroll used in determining the minimum municipal obligation of a pension plan under section 302(c) of the act shall be based on the payroll to be reported on the Internal Revenue Service Form W-2 and shall be calculated as the total payroll for active members of the plan as of the date of the determination, plus the payroll for the same active members of the plan projected to the year’s end using the payroll rates in effect as of the date of the determination.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

CITY OF CARBONDALE AGGREGATE PENSION FUND
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: City officials indicated the following:

This finding resulted from the City underestimating the payroll in the annual calculations for the years in question. The City position of the failure to calculate this payroll is to remind the Auditor General that the payroll must be estimated so that the MMO could be approved by the municipality by September 30 prior to the actual year end. The City in its best efforts attempts to calculate the same. As can be seen since the finding relates to only certain years, that some years calculations have been adequate in those calculations. Also, the finding relates to the City not properly complying with a prior audit finding and properly funding the MMO as determined in the prior audit. This happened since as that has happened in prior audit finding the City thought they would have received further guidance from the Department of the Auditor General in bringing these findings into complete compliance including calculating interest. Without such guidance it was overlooked by the City.

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the police and firemen's MMOs by the December 31, 2015, 2016, 2019, and 2021 deadlines, the city must add the outstanding MMO balances to the current year's MMOs and include interest, as required by Act 205.

CITY OF CARBONDALE AGGREGATE PENSION FUND
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We again recommend that the city pay the outstanding MMOs due to the police and firemen’s pension plans for the years 2015, 2016, 2019, and 2021 in the total amount of \$47,088, plus interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculations must be maintained by the city for examination during our next audit of the plan.

Furthermore, we again recommend that, in the future, plan officials properly determine the amount of payroll to be used in the MMO calculations and pay the full MMOs due the city’s pension plans.

Management’s Response: City officials provided the following response:

In response to these findings management intends to calculate the proper amounts due the funds for all years with the proper interest and remit the same as soon as possible. In response to these findings the City will review their MMO payroll calculations after submitting the amounts for approval and adjust MMO contributions prior to being made on or before the date paid. Also, the City will properly review any audits and audit findings with the authority auditing them and make sure all parties understand their responsibility in resolving the same.

Auditor’s Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

CITY OF CARBONDALE AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plans is presented herewith as supplementary information. It is intended to help users assess the plans' 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:

POLICE PENSION PLAN

	(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)
01-01-17	\$ 5,132,591	\$ 7,178,250	\$ 2,045,659	71.5%
01-01-19	7,893,527	7,516,492	(377,035)	105.0%
01-01-21	8,124,631	8,577,849	453,218	94.7%

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.

Due to the deposit of pension bond proceeds in 2018, the Plan's Unfunded Actuarial Accrued Liability decreased to negative \$377, 035 as of January 1, 2019.

CITY OF CARBONDALE AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS – (Continued)

FIREMEN’S PENSION PLAN

	(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)
01-01-17	\$ 3,387,847	\$ 4,372,788	\$ 984,941	77.5%
01-01-19	4,538,489	4,665,606	127,117	97.3%
01-01-21	4,862,956	5,109,389	246,433	95.2%

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.

Due to the deposit of pension bond proceeds in 2018, the Plan’s Unfunded Actuarial Accrued Liability decreased to \$127,117 as of January 1, 2019.

CITY OF CARBONDALE AGGREGATE PENSION FUND
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 CARBONDALE AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2015	\$ 207,980	96.9%*
2016	207,021	97.9%*
2017	341,478	100.0%
2018	93,253	100.0%
2019	122,148	92.5%*
2020	98,752	100.0%
2021	107,731	87.3%*

** See the finding contained in this report.*

CITY OF CARBONDALE AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

FIREMEN’S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2015	\$ 85,434	96.0%*
2016	81,745	97.0%*
2017	130,880	100.0%
2018	44,441	100.0%
2019	65,490	100.0%
2020	147,312	100.0%
2021	152,800	95.0%*

** See the finding contained in this report.*

CITY OF CARBONDALE AGGREGATE PENSION FUND
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:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75%
Cost-of-living adjustments	1.0% per year postretirement

CITY OF CARBONDALE AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	4 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75%
Cost-of-living adjustments	2.5% per year postretirement

CITY OF CARBONDALE AGGREGATE PENSION FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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