

# LIMITED PROCEDURES ENGAGEMENT

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## Sayre Borough Police Pension Plan Bradford County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

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October 2015



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  
Sayre Borough  
Bradford County  
Sayre, PA 18840

We conducted a Limited Procedures Engagement (LPE) of the Sayre Borough Police Pension Plan for the period January 1, 2012 to December 31, 2014 to determine its compliance with certain relevant state laws, regulations, policies, and administrative procedures (relevant requirements). We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 *et seq.*) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- × Whether municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- × 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 review.
- × 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.

- × 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 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 review and examining documents evidencing the deposit of these employee contributions into the pension plan.
- × Whether retirement benefits calculated for plan members who retired during the period under review 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- × Whether the January 1, 2013 actuarial valuation report was prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014, in accordance with Act 205 and whether selected information provided on this report 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.
- × Whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Sayre Borough Police Pension Plan was not being 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 subsequent to this letter:

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Our determination to perform an LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The borough should continue to maintain documentation related to this pension plan.

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 letter were discussed with officials of Sayre Borough and, where appropriate, their responses have been included in this letter. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

October 2, 2015

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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SAYRE BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Inconsistent Pension Benefits

SAYRE BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding - Noncompliance With Prior Audit Recommendation - Inconsistent Pension Benefits**

Condition: As disclosed in the prior audit report, the pension plan’s governing document, Ordinance No. 607, as amended, contains benefit provisions that conflict with the collective bargaining agreement between the police officers and the borough. In addition, the normal retirement benefit contained in the collective bargaining agreement is not in compliance with Act 600, as noted below:

| <u>Benefit Provision</u>           | <u>Governing Document</u>  | <u>Collective Bargaining Agreement</u>  |
|------------------------------------|--|---|
| Normal retirement                  | Every participant in the pension fund may retire from active duty, provided that he/she has completed 25 years of service in the aggregate with the employer and that he/she has attained the age of 50 years. | Participants who have twenty (20) years of service and have reached their fiftieth birthday may retire and receive their retirement benefit.  |
| Early retirement                   | A partial superannuation retirement benefit provided to members of the police force with twenty (20) or more years of service.   | Not provided  |
| Service-related disability benefit | A pension calculated at a rate of no less than 50 per centum of the member’s salary at the time the disability was incurred reduced by the amount of Social Security benefits paid for the same injury.        | A pension calculated in an amount equal to seventy-five percent (75%) of the participant’s monthly compensation, based on the participants last thirty-six (36) months of compensation. |

In addition, the actuarial valuation report forms 201C, valued January 1, 2007, January 1, 2009, January 1, 2011 and January 1, 2013 submitted to the Public Employee Retirement Commission, reported the normal retirement and early retirement benefit provisions included in the governing document, and reported the disability benefit provision included in the collective bargaining agreement.

SAYRE BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding - (Continued)**

Criteria: Act 600 at Section 3 states, in part:

Each ordinance or resolution establishing a police pension fund shall prescribe a minimum period of total service in the aggregate of twenty-five years in the same borough, town, township or regional police department and shall fix the age of the members of the force at fifty-five years, or, if an actuarial study of the cost shows that such reduction in age is feasible, may fix the age of the members of the force at fifty years....

In addition, Act 600 at Section 5(h)(i) states, in part:

The ordinance or resolution establishing the police pension fund may provide for an early retirement benefit. The early retirement benefit shall be provided to a member of the police force with twenty or more years of service who terminates employment prior to the completion of superannuation retirement age and service requirements and who files a written application for an early retirement benefit with the governing body of the municipality or regional police department. The early retirement benefit shall become effective as of the date the application is filed with the governing body or the date designated on the application, whichever is later, and shall be the actuarial equivalent of a partial superannuation retirement benefit. . . .

Furthermore, Act 600 at Section 5(e)(i) states:

In the case of the payment of pensions for permanent injuries incurred in service, the amount and commencement of the payments shall be fixed by regulations of the governing body of the borough, town, township or regional police department and shall be calculated at a rate no less than fifty per centum of the member's salary at the time the disability was incurred, provided that any member who receives benefits for the same injuries under the Social Security Act (49 Stat. 620, 42 U.S.C. § 301 et. seq.) shall have his disability benefits offset or reduced by the amount of such benefits.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained consistent benefit provisions that are in compliance with Act 600.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.



SAYRE BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding - (Continued)**

Recommendation: We again recommend that municipal officials take appropriate action to ensure the plan's governing document and the collective bargaining agreement contain consistent benefit provisions, which are in compliance with Act 600, at their earliest opportunity to do so.

Management's Response: Municipal officials agreed with the finding without exception and are currently in negotiations to revise the benefit structure for the next collective bargaining contract period to address the situation.

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.

SAYRE 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, 2009, 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) |
| 01-01-09                       | \$ 2,507,395                           | \$ 2,411,161   | \$ (96,234)  | 104.0%                     |
| 01-01-11                       | 2,529,275                              | 2,721,692  | 192,417  | 92.9%                      |
| 01-01-13                       | 2,637,090                              | 3,099,924  | 462,834  | 85.1%                      |

Note: The market values of the plan's assets at 01-01-09, 01-01-11, and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 4-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.

SAYRE 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.

SAYRE BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2009                   | \$ 37,882                    | 100.0%                 |
| 2010                   | 39,288                       | 100.0%                 |
| 2011                   | 75,587                       | 102.9%                 |
| 2012                   | 84,232                       | 100.0%                 |
| 2013                   | 93,252                       | 100.0%                 |
| 2014                   | 97,961                       | 100.0%                 |

SAYRE 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, 2013              |
| Actuarial cost method         | Entry age normal             |
| Amortization method           | Level dollar                 |
| Remaining amortization period | 11 years                     |
| Asset valuation method        | Fair value, 4-year smoothing |
| Actuarial assumptions:        |                              |
| Investment rate of return     | 8.0%                         |
| Projected salary increases    | 5.0%                         |

SAYRE BOROUGH POLICE PENSION PLAN  
DISTRIBUTION LIST

This letter was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Sayre Borough Police Pension Plan  
Bradford County  
110 West Packer Avenue  
Sayre, PA 18840

|                                 |                   |
|---------------------------------|-------------------|
| The Honorable Michael D. Thomas | Mayor             |
| Mr. Henry Farley                | Council President |
| Mr. David M. Jarrett            | Borough Manager   |
| Ms. Elizabeth Fice              | Finance Director  |

This letter is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the letter 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).