

# COMPLIANCE AUDIT

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## City of Carbondale Aggregate Pension Fund Lackawanna County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

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February 2018



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 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, 2015 to December 31, 2016. 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 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 findings 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. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit 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 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 from the police pension plan and the plan member who retired from the firemen's pension plan 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 whether the January 1, 2013 and January 1, 2015 actuarial valuation report was prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, respectively, 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.
- 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

understanding of the city's internal controls as they relate to the city'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 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 findings further discussed later in this report:

Police and Firemen's Pension Plans:

Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Failure To Properly Determine And Fully Pay The Minimum Municipal Obligations Of The Plans

Police Pension Plan:

Finding No. 2 – Pension Benefits In Excess Of Third Class City Code

Finding No. 1 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 fully correct this previously reported audit finding and strongly encourage timely implementation of the recommendations noted in this 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 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.

January 2, 2018



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 City of Carbondale Aggregate Pension Fund 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 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.

## **BACKGROUND – (Continued)**

As of December 31, 2016, the police plan had 9 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, 2016, the firemen's pension plan had 6 active members, no terminated members eligible for vested benefits in the future and 5 retirees receiving pension benefits from the plan.

As of December 31, 2016, selected plan benefit provisions are as follows:

### **POLICE PENSION PLAN**

#### **Eligibility Requirements:**

Normal Retirement	Age 50 and 20 years of service.
Early Retirement	None
Vesting	Member is 100% vested after 12 years of service.

#### **Retirement Benefit:**

Benefit equals 50% of average pay, plus 1.25% of pay per year of service in excess of 25 years (maximum \$100).

#### **Survivor Benefit:**

If retired or eligible to retire - 50% of benefit. If killed in service after 10 years - 40% of pay. Before 10 years - 20% of pay.

#### **Service Related Disability Benefit:**

Benefit equals 40% of pay after 10 years, 20% of pay before 10 years.

**BACKGROUND – (Continued)**

**FIREMEN’S PENSION PLAN**

Eligibility Requirements:

Normal Retirement	Hired before 1/1/87: 20 years of service. Hired after 1/1/87: Age 55 and 20 years of service.
Early Retirement	Hired before 1/1/87: None Hired after 1/1/87: Age 50 and 25 years of service.
Vesting	None

Retirement Benefit:

Hired before 1/1/87: Benefit equals 50% of final pay, plus 1.25% of pay per year of service in excess of 20 years (maximum \$100).

Hired after 1/1/87: Benefit equals 50% of final pay, plus 1.25% of pay per year of service in excess of 25 years (maximum \$100).

Survivor Benefit:

Hired before 1/1/87: If retired or eligible to retire – Benefit equals 100% of benefit.

Hired after 1/1/87: If retired or eligible to retire – Benefit equals 50% of benefit.

If killed in service after 10 years - 40% of pay. Before 10 years - 20% of pay.

Service Related Disability Benefit:

Hired before 1/1/87: Benefit equals 50% of pay.

Hired after 1/1/87: Benefit equals 40% of pay after 10 years, 20% of pay before 10 years.



CITY OF CARBONDALE AGGREGATE PENSION FUND  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

The City of Carbondale has complied with the prior audit recommendation concerning the following:

Police Pension Plan

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current audit period, the city reimbursed \$42,643 to the Commonwealth for the overpayment of state aid received in 2014.

Partial Compliance With Prior Audit Recommendations

The City of Carbondale has partially complied with the prior audit recommendation concerning the following:

Police and Firemen's Pension Plans

· Failure To Pay The Minimum Municipal Obligations Of The Plans

The city deposited the outstanding interest due to the pension plans for the late payment of the 2013 minimum municipal obligations (MMOs) in the total amount of \$22,238; however, the city did not properly determine or fully pay the minimum municipal obligations (MMO) of the police and firemen's pension plans for the years 2015 and 2016, as required by Act 205 as disclosed in Finding No. 1 contained in this report.

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 plan's last three prior audit reports, the collective bargaining agreement between the city and its firemen 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 period, 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. 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, therefore, the city 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 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 audit report 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 and the city is paying pension benefits to 4 retirees in excess of those benefits authorized by the Third Class City Code. During the current period, it was determined that excess benefits are still being paid to existing retirees during the current audit period. 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, therefore, the city 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.

Additionally, during the current audit period, the city offered an amendment to its original Retirement Incentive Program for full-time police officers with at least 20 years of service as of July 16, 2016 which also contains pension benefits that are not authorized according to the Third Class City Code as further discussed in Finding No. 2 of this report.

CITY OF CARBONDALE AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Police and Firemen's Pension Plans

**Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Failure To Properly Determine And Fully Pay The Minimum Municipal Obligations Of The Plans**

Condition: As disclosed in the Status of Prior Findings section of this report, although the city partially complied with the prior audit recommendation by depositing the outstanding interest due the pension plans for the late payment of the 2013 minimum municipal obligations (MMOs), plan officials did not properly determine or fully pay the MMOs of the police and firemen's pension plans for the years 2015 and 2016, as required by Act 205. The MMO determined by the city for the police pension plan understated payroll by \$72,411 and \$47,096 for 2015 and 2016, respectively. In addition, the MMO determined by the city for the firemen's pension plan also understated payroll by \$69,817 and \$54,505 for 2015 and 2016, respectively. Based upon an estimate prepared by this department, the city had unpaid MMO balances of \$6,345 and \$4,271 for the police pension plan and outstanding MMO balances of \$3,454 and \$2,469 for the firemen's pension plan for the years 2015 and 2016, respectively.

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  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (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: The city failed to establish adequate internal control procedures to ensure the accuracy of MMO calculations and timely payment of the full MMOs into the city's pension plans.

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 and 2016, deadline, the city must add the police and firemen's outstanding MMO balances to the current year's MMOs and include interest, as required by Act 205.

Recommendation: We recommend that the city pay the outstanding MMOs due to the police and firemen's pension plans for the years 2015 and 2016, with 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 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: Municipal officials agreed with the finding without exception.

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

CITY OF CARBONDALE AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

Police Pension Plan

**Finding No. 2 – Pension Benefits In Excess Of Third Class City Code**

Condition: As disclosed in the Status of Prior Findings section of this report, the pension plan's governing document previously granted benefits that were not authorized by the Third Class City Code. A similar condition occurred during the current audit period. In August 2016, the city amended its Retirement Incentive Program for full-time police officers with at least 20 years of service as of July 16, 2016 as follows:

Section 27-19 C (3) of File of the Council No. 2 of 2016 states:

Any officer opting to participate in the City of Carbondale Police Department Retirement Incentive Program - Amendment 2, as outlined in this ordinance, and within the timeframes contained herein, shall sign a Waiver of City-Funded Health Insurance Benefits, and in exchange for that waiver, the retiree shall receive a Healthcare Buy Out - in an amount that equals \$10,000 NET to the retiree - for every year said retiree waives the Health Benefits. If at any point in time the retiree wishes to re-enroll in the city's Healthcare plan, the city will promptly accommodate the retiree with the benefit plan in place at that time – in accordance with ARTICLE XI - INSURANCE of the current collective bargaining agreement between the city of Carbondale and the Fraternal order of Police, Lodge 63, and the above noted Healthcare Buy out shall cease. This incentive will be funded from the city of Carbondale General Fund for only calendar years said retiree waives the City's Health Plan. It shall also terminate promptly upon the officer's death.

In addition, Section 27-19 C (4) of File of the Council No. 2 of 2016 states:

The City of Carbondale shall fund a one percent (1.0%) Healthcare Increase Savings Allowance (HISA) on a yearly basis for any officer participating in the Retirement Incentive Program - Amendment 2 only; to be calculated by adding one percent (1.0%) of the base monthly pension compensation to the base monthly pension compensation - to become effective and payable: January 1, 2018. This HISA shall compound each year based on the base monthly pension compensation, but it shall not affect the base monthly pension compensation or the Healthcare Buy-Out incentive - as outlined in sub-section (3) above. This incentive will also be funded from the City of Carbondale General Fund for every year said retiree waives the Health Benefits. It shall also terminate promptly upon the officer's death.

CITY OF CARBONDALE AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

The healthcare incentive and HISA increases provided pursuant to the city's amended Retirement Incentive Program are being funded by the city's general fund, which is not in accordance with the Third Class City Code and Act 205 funding standards. In addition, the healthcare incentive and HISA increases provided under File of the Council No. 2 are in excess of benefits authorized by the Third Class City Code. Further, there was no cost estimate provided determining the financial impact on the pension plan before the retirement incentives were adopted.

Criteria: Section 4303(a) of the Third Class City Code states:

Payments for allowances shall not be a charge on any other fund in the treasury of the city or under its control save the police pension fund herein provided for. The basis of the apportionment of the pension shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 4302.1 or retirement, or the highest average annual salary which the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 4302.1 or retirement, whichever is the higher, and except as to service increments provided for in subsection (b) of this section, shall not in any case exceed in any year one-half the annual pay of such member computed at such monthly or average annual rate, whichever is the higher. (Emphasis added)

In addition, Section 4303.1 of the Third Class City Code states:

Any city may, at any time, at its discretion, upon the recommendation of the persons having custody and management of the police pension fund, increase the allowances of persons receiving allowances of any kind from the police pension fund by reason of and after the termination of the services of any member of said fund. Such increases shall be in conformity with a uniform scale...any such allowances shall not at any time exceed one-half of the current salary being paid patrolmen of the highest pay grade.

Section 305(a) of Act 205 states:

Prior to the adoption of any benefit plan modification by the governing body of the municipality, the chief administrative officer of each pension plan shall provide to the governing body of the municipality a cost estimate of the effect of the proposed benefit plan modification.

Furthermore, Section 305(b) of Act 205 states, in part:

If the pension plan is a defined benefit plan which is self-insured in whole or in part, the cost estimate shall be prepared by an approved actuary. . . .

CITY OF CARBONDALE AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Under Act 205 all pension benefits, whether statutorily authorized or not, must be paid from the appropriate pension fund, reflected in the plan's actuarial valuation reports, and funded in accordance with the act's standards.

Cause: City officials failed to establish adequate internal control procedures to ensure that all retirement benefit modifications were in accordance with Third Class City Code provisions and were accompanied by cost studies to determine the financial impact on the plan prior to their adoption.

Effect: The city is paying pension benefits to a retiree in excess of those benefits authorized by the Third Class City Code. Beginning September 2016, the retiree received excess monthly pension benefits totaling \$980 per month, and totaled approximately \$28,420 through the date of this audit report. In addition, based on the department's recalculation of the retiree's monthly pension benefit under Section 27-19 C (3) of File of the Council No. 2 of 2016, it appears this excess monthly benefit (\$980) includes \$147 per month (approximately \$4,263 through the date of this audit report) in excess of the amendment provisions provided for under the retirement incentive program.

Recommendation: We recommend that the city consult with its solicitor to determine the city's benefit obligations to the affected retiree. In addition, the city should contact the Municipal Pension Reporting Program (MPRP) to determine the proper reporting of these benefits on future actuarial valuation reports. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by the Third Class City Code, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the city's future state aid allocations and submit this information to the department. If it is determined the excess benefits had an impact on the city's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

Furthermore, we recommend the city limit future monthly retirement benefits paid to this retiree to those benefit amounts authorized by the plan's governing document.

Finally, we recommend that all future pension benefit modifications should be preceded by a cost estimate which has been prepared by a qualified person to determine the monetary effect of the proposed modifications to the plan.

CITY OF CARBONDALE AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Management Response: Subsequent to completion of the audit by the department, city officials were contacted on January 11, 2018 and notified of this additional disclosure for solicitation of a response. The city indicated that their position remains the same as noted in the prior audit report as follows:

The City disagrees with this department’s recommendation and continues to stand by its previous position that there is a fundamental difference between a “Retirement Incentive” and a “Pension Benefit” and that all parties involved with drafting and approving the Police Retirement Incentive Program (*and Amendment 2*) had numerous discussions with one another (City Council included), the solicitor, pension actuary and labor attorneys prior to and during the entire process. The city attempted to remain compliant with the law by focusing efforts and resources on developing a financial incentive that’s sole goal would be to induce retirement. (*Audit Note: Modified to include newly enacted provision from File of Council No. 2 of 2016.*)

More specifically, officials contends [sic] that the city it is not paying any pensioner that took advantage of the Retirement Incentive Program a monthly pension benefit above 50% of their annual pay. The basis for apportionment used to calculate the 50% benefit amount for the retirees from the police department was done in compliance with the Third Class City Code. While the Retirement Incentive Program does provide a monetary incentive for those officers who opted-in to retire from the Department within a prescribed time frame, the pensioners are only receiving the maximum pension benefit of 50% of their annual salary. *Additionally, while the Retirement Incentive Program-Amendment 2 also provides a monetary incentive for a police officer who opted-out of the city’s health plan to retire from the Department within a prescribed time frame, the pensioner is also only receiving the maximum pension benefit of 50% of his annual salary. (Audit Note: Modified to include newly enacted provision from File of Council No. 2 of 2016.)*

Further, the City cites that this finding also references a violation of Third Class City Code for paying pension benefits from the General Fund. The City contends that it is NOT paying any portion of retirees’ pension benefits from the city’s general fund. Once again, the City believes there is a fundamental difference between “Pension Benefits” and a “Retirement Incentive”. And while the City admittedly used the same data to calculate both the pension benefit and the Retirement Incentive Program, the City’s Ordinances (File of Council No. 3 and 4; 2013 and *File of Council No. 2; 2016*) very clearly establish the Retirement Incentive Program in a completely separate and new Article (27 - 6) of the City Code. (*Audit Note: Modified to include newly enacted provision from File of Council No. 2 of 2016.*)



CITY OF CARBONDALE AGGREGATE PENSION FUND  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

In addition, the city cites that its own pension code (27-2(c)), which states in part: “Payments required under the plan shall not be a charge on any other fund in the treasury of the City of Carbondale.” Once again, because this Retirement Incentive Program and *Amendment 2* are NOT required under the plan, the City’s interpretation is that it would not be precluded from being paid directly from the General Fund. (*Audit Note: Modified to include newly enacted provision from File of Council No. 2 of 2016.*)

Finally, as the finding again references a violation of Act 205, whereby the City failed to conduct a study to determine the effect the Retirement Incentive Program would have on the pension plan, in this case, no cost study was done for the Retirement Incentive Program and *Retirement Incentive Program-Amendment 2* because the City contends that there were no changes made to the pension plan. All of the incentives were adopted and provided outside the scope of the plan. Seeing that there is no direct financial effect on the pension plan, Officials find it burdensome to conduct and pay for a study now, after the fact, when the city clearly evidenced and admits that the Retirement Incentives are not coming from the pension plan. The City previously stated that the Retirement Incentive Program will save taxpayers of the City an estimated \$548,127 over the next 4 years which is monumental considering the City’s general fund is roughly 5.8 million per year. (*Audit Note: Modified to include newly enacted provision from File of Council No. 2 of 2016.*)

Subsequent to the current audit period, the city reimbursed the police pension plan the total amount of \$129,363 for the excess benefits paid from the police pension plan under the retirement incentive program (and its amendment) during 2014 through the date of this report.

Auditor Conclusion: The department recognizes the city’s efforts to reimburse the police pension plan for the excess benefits paid from the police pension plan under its retirement incentive program; however, we again conclude that despite the City’s efforts to characterize these additional benefits as something other than “pension benefits,” they are paid as pension benefits and expire only when the member passes away. These additional benefits are “allowances” as they are regularly occurring payments attributable to the retirement of the pension plan member and are no different than any other pension payment in terms of their regularity or schedule of payment. Simply calling a pension benefit by another term does not remove it from what it actually is and the City’s position that these are a “retirement incentive,” not a “pension benefit” is of no legal significance. All payments are post-retirement/after-service payments and are recurring until the death of the member. Therefore, based on the criteria previously cited, the finding remains as stated.

CITY OF CARBONDALE AGGREGATE PENSION FUND  
 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, 2011, 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)
01-01-11	\$ 4,414,627	\$ 5,244,892	\$ 830,265	84.2%
01-01-13	4,932,574	5,477,190	544,616	90.1%
01-01-15	5,203,029	6,420,726	1,217,697	81.0%

Note: The market values of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 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.

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)
01-01-11	\$ 2,729,772	\$ 2,897,075	\$ 167,303	94.2%
01-01-13	3,084,629	3,336,363	251,734	92.5%
01-01-15	3,415,310	3,963,562	548,252	86.2%

Note: The market values of the plan’s assets at 01-01-11, 01-01-13, and 01-01-15 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.

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
2011	\$ 201,598	100.0%
2012	209,113	100.0%
2013	237,597	100.0%
2014	202,527	100.0%
2015	207,980	*96.9%
2016	207,021	*97.9%

*\* See Finding No. 1 contained in this report.*

CITY OF CARBONDALE AGGREGATE PENSION FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES – (Continued)

FIREMEN’S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2011	\$ 73,128	100.0%
2012	75,770	100.0%
2013	59,970	100.0%
2014	63,881	100.0%
2015	85,434	*96.0%
2016	81,745	*97.0%

*\* See Finding No. 1 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	6 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.750%
Projected salary increases	4.475%
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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	8 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  
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This report was initially distributed to the following:

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