

# COMPLIANCE AUDIT

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## Municipality of Kingston Firemen's Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

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April 2020



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 Municipal Council  
Municipality of Kingston  
Luzerne County  
Kingston, PA 18704

We have conducted a compliance audit of the Municipality of Kingston Firemen's Pension Plan for the period January 1, 2017 to December 31, 2018. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.

- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for the three plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, 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 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.

The Municipality of Kingston contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the municipal offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Municipal officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Municipality of Kingston Firemen's Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the municipality's internal controls as they relate to the municipality's compliance with those requirements and that we considered to be significant within the context of our audit objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the Municipality of Kingston 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 – Inconsistent Pension Benefit Provision

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 Municipality of Kingston and, where appropriate, their responses have been included in the report. We would like to thank municipal officials for the cooperation extended to us during the conduct of the audit.

March 26, 2020



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 Municipality of Kingston Firemen's Pension Plan 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 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 Municipality of Kingston Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of an ordinance dated December 7, 1970, as amended. The plan is also affected by the provisions of collective bargaining agreements between the municipality and its firefighters. The plan was established March 1, 1972. Active members are required to contribute 6 percent of compensation to the plan. As of December 31, 2018, the plan had 29 active members, 1 terminated member eligible for vested benefits in the future, and 11 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2018, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Hired on or before January 1, 2014: Age 55. Hired after January 1, 2014: Age 58 and 25 years of service.
Early Retirement	Voluntary – 22 years of service; Involuntary – 8 years of service.
Vesting	Member is 100% vested after 8 years of service.

### Retirement Benefit:

Benefit equals 2.0% of final average salary based on last 3 years times years of service up to 25 years.

### Survivor Benefit:

If a member is eligible for retirement, a death benefit is payable in accordance with the election filed by the member.

### Service Related Disability Benefit:

Benefit equals 80% of final average salary, reduced by Workers' Compensation benefits received by the member.

### Non-Service Related Disability Benefit:

After ten or more years of service, 50% of final average salary, reduced by Workers' Compensation benefits received by the member.

MUNICIPALITY OF KINGSTON FIREMEN'S PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Inconsistent Pension Benefit Provision**

Condition: The pension plan's governing document, as amended, codified at Article IX, Appendix B, Section VII of the municipal code, contains a definition of final average salary that conflicts with the definitions set forth in the collective bargaining agreement between the municipality and its firefighters, as follows:

Benefit Provision	Governing Document	Collective Bargaining Agreement
Final Average Salary	Final salary is defined as the average annual compensation of a Member during his final three years of employment as a full time Municipal fire employee.	Retirement for employees hired prior to January 1, 2014: For the purpose of defining the average final salary utilized to calculate retirement benefits, all wages received by the employee over the employee's final (3) three years/ (36 months) of employment shall be utilized to calculate the benefit. Said wages shall include: annual salaries; cost of living increases; increments; overtime; medical training differentials; left over hours, education; annual sick time buybacks, vacation/bat/holiday buyback, insurance benefit buyback and final lump sum sick time buyback. All said earnings will then be divided by three (3) to determine the final average yearly salary. Retirement for employees hired after January 1, 2014: For new employees hired after January 1, 2014, the definition of average final salary shall be amended from the above to be all wages received by the employee over the employee's final (3) years of employment shall be utilized excluding final lump sum buybacks to calculate the retirement benefit. Expressly, lump sum sick leave, vacation leave, and accumulated compensation leave shall not be included in the final average salary for calculating retirement benefit.



MUNICIPALITY OF KINGSTON FIREMEN'S PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Criteria: The plan's governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: The failure to amend the governing document to reflect the provisions of the collective bargaining agreement is attributable to an oversight.

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

Recommendation: We recommend that municipal officials take appropriate action to ensure the plan's governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

Management Response: The Municipality of Kingston agrees with the finding for the Firemen's Pension Plan. The Municipality will amend the plan Ordinance for consistency with the Collective Bargaining Agreement.

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

MUNICIPALITY OF KINGSTON FIREMEN'S PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 5 through 7 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2015, 2016, 2017, AND 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability				
Service cost	\$ 181,969	\$ 191,067	\$ 187,596	\$ 196,976
Interest	521,674	558,615	553,148	589,465
Difference between expected and actual experience	(465,260)	-	(561,569)	-
Benefit payments, including refunds of member contributions	(239,963)	(232,189)	(278,181)	(284,875)
Net Change in Total Pension Liability	(1,580)	517,493	(99,006)	501,566
Total Pension Liability – Beginning	7,134,549	7,132,969	7,650,462	7,551,456
Total Pension Liability – Ending (a)	<u>\$ 7,132,969</u>	<u>\$ 7,650,462</u>	<u>\$ 7,551,456</u>	<u>\$ 8,053,022</u>
Plan Fiduciary Net Position				
Contributions – employer	\$ 313,909	\$ 1,624,637	\$ 77,916	\$ 36,946
Contributions – member	85,112	88,352	112,304	117,129
Net investment income	(156,748)	205,481	684,396	(459,623)
Benefit payments, including refunds of member contributions	(239,963)	(232,189)	(278,181)	(284,875)
Administrative expense	-	(11,400)	(2,475)	(10,475)
Net Change in Plan Fiduciary Net Position	2,310	1,674,881	593,960	(600,898)
Plan Fiduciary Net Position – Beginning	4,614,509	4,616,819	6,291,700	6,885,660
Plan Fiduciary Net Position – Ending (b)	<u>\$ 4,616,819</u>	<u>\$ 6,291,700</u>	<u>\$ 6,885,660</u>	<u>\$ 6,284,762</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,516,150</u>	<u>\$ 1,358,762</u>	<u>\$ 665,796</u>	<u>\$ 1,768,260</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.7%	82.2%	91.2%	78.0%
Estimated Covered Employee Payroll	\$ 1,691,679	\$ 1,767,109	\$ 1,880,618	\$ 1,952,167
Net Pension Liability as a Percentage of Covered Employee Payroll	148.7%	76.9%	35.4%	90.6%

MUNICIPALITY OF KINGSTON FIREMEN'S PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the municipality as of December 31, 2015, 2016, 2017, and 2018 calculated using the discount rate of 7.75%, as well as what the municipality's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability – 12/31/15	\$ 3,325,791	\$ 2,516,150	\$ 1,825,840
Net Pension Liability – 12/31/16	\$ 2,199,543	\$ 1,358,762	\$ 641,910
Net Pension Liability – 12/31/17	\$ 1,507,724	\$ 665,796	\$ (53,157)
Net Pension Liability – 12/31/18	\$ 2,644,093	\$ 1,768,260	\$ 1,020,153

MUNICIPALITY OF KINGSTON FIREMEN'S PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2009	\$ 148,834	\$ 148,834	\$ -		
2010	141,107	156,431	(15,324)		
2011	221,934	251,934	(30,000)		
2012	220,859	220,859	-		
2013	353,523	353,523	-		
2014	360,044	360,044	-	\$1,744,316	20.64%
2015	313,909	313,909	-	1,691,679	18.56%
2016**	317,054	1,624,637	(1,307,583)	1,767,109	91.94%
2017	77,916	77,916	-	1,880,618	4.14%
2018	36,946	36,946	-	1,952,167	1.89%

\* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

\*\* 2016 actual contributions included bond proceeds of \$1,448,406.

MUNICIPALITY OF KINGSTON 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. The historical information, beginning as of January 1, 2013, is as follows:

	(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)
01-01-13	\$ 4,295,479	\$ 6,234,609	\$ 1,939,130	68.9%
01-01-15	5,220,883	6,669,289	1,448,406	78.3%
01-01-17	7,550,040	7,088,893	(461,147)	106.5%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. 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.

Bond proceeds in the amount of \$1,448,406 were deposited into the pension plan in 2016 causing a reduction in the unfunded actuarial accrued liability at 01-01-17.

MUNICIPALITY OF KINGSTON 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.

MUNICIPALITY OF KINGSTON FIREMEN'S 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	None
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.0%
Cost-of-living adjustments	2.0% per year postretirement

MUNICIPALITY OF KINGSTON FIREMEN'S PENSION PLAN  
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This report was initially distributed to the following:

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