

# COMPLIANCE AUDIT

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## Municipality of Kingston Police 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 Police 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 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 finding contained in our prior audit report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding 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 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 both of the 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 prepared and submitted by March 31, 2016 and 2018, 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 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 Police 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 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 Municipality of Kingston Police 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 - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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 Police 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.

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Municipality of Kingston Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of an ordinance dated April 4, 1983, as amended. The plan is also affected by the provisions of collective bargaining agreements between the municipality and its police officers. The plan was established December 29, 1970. Active members are required to contribute 6 percent of compensation to the plan. As of December 31, 2018, the plan had 19 active members, no terminated members eligible for vested benefits in the future, and 21 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	Pre January 1, 1996: Age 50 and 25 years of service. Post January 1, 1996: Age 55 and 25 years of service.
Early Retirement	None
Vesting	Member is 100% vested after 12 years of service.

### Retirement Benefit:

Benefit equals 65% of average monthly compensation for members hired before January 1, 1996 and 50% of average monthly compensation for members hired after January 1, 1996. Average monthly compensation is based upon final 36 months of employment.

### Survivor Benefit:

If member is retired or eligible for retirement, the benefit is 100% of pension.

### Service Related Disability Benefit:

Benefit equals 65% of average monthly compensation reduced by 100% of any Workman's Compensation benefits received by the member. The minimum disability pension is 50% of monthly salary at time of disability.

### Non-Service Related Disability Benefit:

For members hired before January 24, 2001: If member has 10 or more years of service, the benefit is equal to 30% of average monthly compensation.

MUNICIPALITY OF KINGSTON POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

The Municipality of Kingston has complied with the prior recommendation concerning the following:

· Finding - Unauthorized Pension Benefit

With the adoption of Ordinance No. 2012-11, municipal officials brought the police pension plan's benefit structure into compliance with Act 600.



MUNICIPALITY OF KINGSTON POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The municipality certified 1 ineligible police officer (2 units) and overstated payroll by \$57,203 on the Certification Form AG 385 filed in 2018. The data contained on this certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials went by the officer’s benefit commencement date of July 1, 2017 instead of his termination date of June 23, 2017 in determining the six months eligibility criteria.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the municipality’s state aid allocation was based on unit value, the incorrect certification of pension data affected the municipality’s state aid allocation, as identified below:

<u>Year</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2018	2	\$4,684	\$ 9,368

In addition, the municipality used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

Recommendation: We recommend that the overpayment of state aid, in the amount of \$9,368, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

MUNICIPALITY OF KINGSTON POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding (Continued)**

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

MUNICIPALITY OF KINGSTON POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 6 through 8 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	\$ 160,575	\$ 168,604	\$ 173,512	\$ 182,188
Interest	732,872	749,158	741,968	759,745
Difference between expected and actual experience	513,759	-	(328,105)	-
Benefit payments, including refunds of member contributions	(689,400)	(693,270)	(681,413)	(708,118)
Net Change in Total Pension Liability	717,806	224,492	(94,038)	233,815
Total Pension Liability – Beginning	9,126,776	9,844,582	10,069,074	9,975,036
Total Pension Liability – Ending (a)	<u>\$ 9,844,582</u>	<u>\$ 10,069,074</u>	<u>\$ 9,975,036</u>	<u>\$ 10,208,851</u>
Plan Fiduciary Net Position				
Contributions – employer	\$ 266,984	\$ 3,451,399	\$ 114,106	\$ 136,389
Contributions – member	60,199	64,548	67,357	84,012
Net investment income	(151,642)	204,776	629,669	(397,769)
Benefit payments, including refunds of member contributions	(689,400)	(693,270)	(681,413)	(708,118)
Administrative expense	-	(10,300)	(2,375)	(9,875)
Net Change in Plan Fiduciary Net Position	(513,859)	3,017,153	127,344	(895,361)
Plan Fiduciary Net Position – Beginning	5,296,144	4,782,285	7,799,438	7,926,782
Plan Fiduciary Net Position – Ending (b)	<u>\$ 4,782,285</u>	<u>\$ 7,799,438</u>	<u>\$ 7,926,782</u>	<u>\$ 7,031,421</u>
Net Pension Liability – Ending (a-b)	<u>\$ 5,062,297</u>	<u>\$ 2,269,636</u>	<u>\$ 2,048,254</u>	<u>\$ 3,177,430</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.6%	77.5%	79.5%	68.9%
Estimated Covered Employee Payroll	\$ 1,207,647	\$ 1,264,562	\$ 1,317,881	\$ 1,400,201
Net Pension Liability as a Percentage of Covered Employee Payroll	419.2%	179.5%	155.4%	226.9%

MUNICIPALITY OF KINGSTON POLICE 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 2019, 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	\$ 6,204,210	\$ 5,062,297	\$ 4,102,734
Net Pension Liability – 12/31/16	\$ 3,440,522	\$ 2,269,636	\$ 1,285,199
Net Pension Liability – 12/31/17	\$ 3,205,451	\$ 2,048,254	\$ 1,073,031
Net Pension Liability – 12/31/18	\$ 4,638,512	\$ 3,177,430	\$ 2,172,872

MUNICIPALITY OF KINGSTON POLICE 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	\$ 183,468	\$ 183,468	\$ -		
2010	170,430	182,689	(12,259)		
2011	245,173	275,173	(30,000)		
2012	243,439	243,439	-		
2013	223,868	223,868	-		
2014	214,546	214,546	-	\$1,174,018	18.27%
2015	266,984	266,984	-	1,207,647	22.11%
2016**	268,573	3,451,399	(3,182,826)	1,264,562	272.93%
2017	114,106	114,106	-	1,317,881	8.66%
2018	136,389	136,389	-	1,400,201	9.74%

\* 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 \$3,285,162.

MUNICIPALITY OF KINGSTON 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, 2013, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	\$ 6,507,114	\$ 8,773,338	\$ 2,266,224	74.2%
01-01-15	6,355,373	9,640,535	3,285,162	65.9%
01-01-17	9,359,326	9,740,969	381,643	96.1%

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. These methods 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 \$3,285,162 were deposited into the pension plan in 2016 causing a reduction in the unfunded actuarial accrued liability at 01-01-17.

MUNICIPALITY OF KINGSTON 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.

MUNICIPALITY OF KINGSTON 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	20 years
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	1.0% per year postretirement

\* Includes inflation at 3.0%



MUNICIPALITY OF KINGSTON POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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