

# LIMITED PROCEDURES ENGAGEMENT

---

## West Wyoming Borough Police Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

---

March 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and Borough Council  
West Wyoming Borough  
Luzerne County  
West Wyoming, PA 18644

We conducted a Limited Procedures Engagement (LPE) of the West Wyoming Borough Police Pension Plan for the period January 1, 2016 to December 31, 2017 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. 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 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 engagement period.
- 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 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 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the West Wyoming 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 later in this report:

Finding – Improper Disposition Of The Proceeds Of A Cash  
Surrendered Insurance Policy

Our determination to perform a 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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates a decline of assets available to satisfy the long-term liabilities of the plan. **The plan's funded ratio went from 77.0% as of January 1, 2013, to a ratio of 65.8% as of January 1, 2017**, which is the most recent data available. We encourage borough officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

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

March 7, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Finding and Recommendation:	
Finding – Improper Disposition Of The Proceeds Of A Cash Surrendered Insurance Policy .....	1
Supplementary Information .....	3
Report Distribution List .....	8

WEST WYOMING BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Improper Disposition Of The Proceeds Of A Cash Surrendered Insurance Policy**

Condition: As disclosed as an observation during the conduct of the prior engagement, the borough failed to deposit the proceeds from a cash surrendered insurance policy for a former plan member who retired previously during 2008. The proceeds from the liquidated insurance policy amounting to \$53,479 were deposited into the borough's general fund instead of the police pension plan account. Although the borough subsequently deposited \$10,000 into the police pension plan account, as of the date of this report, proceeds amounting to \$43,479 remain in the borough's general fund. In addition, this amount appears as a receivable on the plan's most current actuarial valuation report valued January 1, 2017 as prepared by the plan's actuary and is included in the actuarial value of assets accumulated to satisfy future benefits.

Criteria: The Commonwealth Court of Pennsylvania, in the case of Fedor v. Borough of Dormont, 36 Pa. Commw. 449, 389 A.2d 217 (1978), aff'd 487 Pa. 249, 409 A.2d 334 (1979), held that Act 600 funds can be used only to provide pensions for plan members, as follows:

Nothing in Section 1 of the Act of May 29, 1956 as it was originally enacted or in its amended version after 1970, suggests that the funds may be used otherwise than for the provision of pensions or annuities. No benefit other than by means of pension is mentioned in either the original or the amended version of the act. The word pension is defined by all dictionaries and is commonly used, to mean a fixed sum paid regularly to a person. We are therefore constrained to agree with the Auditor General and the Deputy Attorney General who advised him, that the expenditure of monies of a police pension plan created under the Act of May 29, 1956 for the purchase of a single payment life insurance policy to provide a death benefit for the participant would be improper.

Furthermore, Section 102 of Act 205 states, in part:

“Pension Fund.” The entity which is the repository for the assets amassed by a pension plan as reserves for present and future periodic retirement payments and benefits of active and retired members of the pension plan.

In addition, the Department of the Auditor General has issued several bulletins providing guidance regarding the purchase of life insurance by municipal pension plans. In 1985, Auditor General Municipal Pension Bulletin No. 2-85, *Purchase of Life Insurance for Municipal Pension Plans*, was issued. This bulletin disallowed any further purchase of life insurance with pension funds after January 1, 1986, but did allow the continuance of existing policies. Subsequently, in 1988, Auditor

WEST WYOMING BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

General Municipal Pension Bulletin No. 6-88, *Purchase of Insurance Coverage*, was issued and restated this position, by stating, in part:

...we would recommend cash surrender of such policies.... As an alternative, the municipality could transfer existing life insurance policies from the pension plan to a municipal general fund provided the pension plan is adequately compensated.

Cause: Although plan officials were made aware that proceeds from the cash surrendered insurance contracts should have been transferred to police pension plan account during performance of the prior engagement, officials again failed to deposit the remaining proceeds into the police pension plan to ensure compliance with the prior recommendation.

Effect: The improper disposition of the proceeds from the surrendered insurance policy reduces the amount of funds available to pay authorized plan benefits, expenses or for investment purposes.

Recommendation: We again recommend that the borough deposit the remaining proceeds from the cash surrendered insurance policy in the amount of \$43,479 with interest, compounded annually at a rate earned by the plan, into the police pension plan.

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

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

WEST WYOMING BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 and 4 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, AND 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability			
Interest	\$ 33,473	\$ 32,249	\$ 34,706
Difference between expected and actual experience	-	-	84,392
Changes of assumptions	-	-	(34,677)
Benefit payments, including refunds of member contributions	(48,900)	(53,019)	(40,706)
Net Change in Total Pension Liability	(15,427)	(20,770)	43,715
Total Pension Liability – Beginning	502,633	487,206	466,436
Total Pension Liability – Ending (a)	<u>\$ 487,206</u>	<u>\$ 466,436</u>	<u>\$ 510,151</u>
Plan Fiduciary Net Position			
Net investment income	\$ (3,842)	\$ 5,232	\$ 18,726
Benefit payments, including refunds of member contributions	(48,900)	(53,019)	(40,706)
Administrative expense	(3,825)	(1,100)	(5,425)
Net Change in Plan Fiduciary Net Position	(56,567)	(48,887)	(27,405)
Plan Fiduciary Net Position – Beginning	410,393	353,826	304,939
Plan Fiduciary Net Position – Ending (b)	<u>\$ 353,826</u>	<u>\$ 304,939</u>	<u>\$ 277,534</u>
Net Pension Liability – Ending (a-b)	<u>\$ 133,380</u>	<u>\$ 161,497</u>	<u>\$ 232,617</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.62%	65.38%	54.40%
Estimated Covered Employee Payroll	\$ -	\$ -	\$ -
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	N/A	N/A

WEST WYOMING BOROUGH 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 borough as of December 31, 2016 and 2017, calculated using the discount rate of 7.00%, as well as what the borough'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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability – 12/31/16	\$ 199,517	\$ 161,497	\$ 128,489
Net Pension Liability – 12/31/17	\$ 271,114	\$ 232,617	\$ 199,049

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
2008	\$ 7,722	\$ 7,722	-		
2009	8,739	9,408	\$ (669)		
2010	5,973	6,447	(474)		
2011	19,305	19,305	-		
2012	19,490	19,490	-		
2013	26,260	26,260	-		
2014	-	-	-		
2015	-	-	-	\$ -	N/A
2016	-	-	-	-	N/A
2017	-	-	-	-	N/A



WEST WYOMING 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, 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	\$ 436,937	\$ 567,541	\$ 130,604	77.0%
01-01-15	410,393	502,633	92,240	81.6%
01-01-17	339,616	516,151	176,535	65.8%

WEST WYOMING 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.

WEST WYOMING 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	3 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%

WEST WYOMING BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Joseph Herbert**  
Mayor

**Mr. Gary Stavish**  
Council President

**Ms. Marie Pedley**  
Borough Administrator

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