

COMPLIANCE AUDIT

City of Shamokin Police Pension Plan Northumberland County, Pennsylvania For the Period January 1, 2021 to December 31, 2023

August 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Shamokin
Northumberland County
Shamokin, PA 17872

We have conducted a compliance audit of the City of Shamokin Police Pension Plan for the period January 1, 2021 to December 31, 2023. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed 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 plan members who retired 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, 2021 and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2022 and 2024, 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 of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Shamokin Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 City of Shamokin 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:

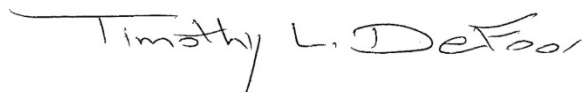
Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

As previously noted, the objective of our audit of the City of Shamokin Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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 56.7% as of January 1, 2021, to a ratio of 44.8% as of January 1, 2023**, which is the most recent data available. **Based on the funding status of this plan aggregated with the funding status of the city's officers' and employees' pension plan as of January 1, 2021, the Municipal Pension Reporting Program issued a notification that the city is in Level II moderate distress status.** The city's distress level based on the plans' aggregated funding status as of January 1, 2023 will be determined later this year and notification will be issued. We encourage city 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 the City of Shamokin 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.



Timothy L. DeFoor
Auditor General
July 29, 2024

CONTENTS

	<u>Page</u>
Background.....	1
Status Of Prior Findings.....	2
Finding and Recommendation:	
Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid	3
Potential Withhold of State Aid.....	5
Supplementary Information	6
Report Distribution List	10

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.

Annual state aid allocations are provided from a two 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 Shamokin Police Pension Plan is also governed by implementing regulations 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.

The City of Shamokin Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Chapter 20 of the city code, adopted by Ordinance No. 17-06, pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established February 7, 1950. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2023, the plan had 8 active members, no terminated members eligible for vested benefits in the future, and 25 retirees receiving pension benefits from the plan.

CITY OF SHAMOKIN POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Status Of Prior Audit Recommendations

· Inconsistent And Unauthorized Pension Benefits

As disclosed in the January 1, 2015 to December 31, 2016 audit report, municipal officials took appropriate action to ensure the plan's benefit provisions contained in the plan's governing document and the collective bargaining agreement (CBA) are consistent and in accordance with the Third Class City Code. While these benefits will be in effect for future retirees, the pension plan continues to pay excess benefits to three existing retirees which amounted to \$95,127 during the current audit period. Since the city received state aid based on unit value during the audit period, it did not receive state aid attributable to the excess benefits provided. The Department will continue to monitor the effect of the excess benefits being paid to the existing retirees on the city's future state aid allocations.

· Pension Benefits Not Authorized By The Third Class City Code

As disclosed in the January 1, 2015 to December 31, 2016 audit report, the city enacted Ordinance No. 17-06, which eliminated the inclusion of accumulated amounts paid for unused sick leave, vacation and personal leave or any other similar amounts and limits unused compensatory time to compensatory time earned during the computation period in the determination of pension calculations for retirees after January 1, 2018. In addition, municipal officials took appropriate action to ensure the pension benefits calculated for police officers who retired after January 1, 2018, were in accordance with the provisions contained in the plan's governing document, the collective bargaining agreement, and the Third Class City Code. However, the pension plan continues to pay excess benefits to five existing retirees, which amounted to \$86,295 during our current audit period. Since the city received state aid based on unit value during the audit period, it did not receive state aid attributable to the unauthorized pension benefits provided. The Department will continue to monitor the effect of the excess benefits being paid to the existing retirees on the city's future state aid allocations.

CITY OF SHAMOKIN POLICE PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The city certified four ineligible police officers (8 units) and overstated payroll by \$192,174 on the Certification Form AG 385 filed in 2023. The data contained on these 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: The city provided conflicting dates of hire for the four police officers who all attended a police academy prior to commencing police work. The city was unable to corroborate that the police officers met the requirement of being employed on a full-time basis for at least six consecutive months in 2022 to be certified on the Certification Form AG 385 filed in 2023.

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

<u>Year</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2023	8	\$5,828	\$ 46,624

In addition, the city 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.

Furthermore, the city’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the total excess state aid, in the amount of \$46,624, 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.

CITY OF SHAMOKIN POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

We also recommend that in the future, plan officials establish adequate internal control 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.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiencies 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: Due to the potential withhold of state aid, the city's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

CITY OF SHAMOKIN POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the city in the amount of \$46,624, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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.

CITY OF SHAMOKIN 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, 2019, 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)
01-01-19	\$ 4,456,003	\$ 8,803,457	\$ 4,347,454	50.6%
01-01-21	5,940,916	10,484,299	4,543,383	56.7%
01-01-23	5,171,240	11,547,426	6,376,186	44.8%

CITY OF SHAMOKIN 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.

CITY OF SHAMOKIN POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 206,311	\$ 206,311	\$ -	\$ 708,465	29.1%
2015	319,714	319,714	-	666,070	48.0%
2016	319,041	319,041	-	658,096	48.5%
2017	423,954	423,954	-	699,216	60.6%
2018	418,396	418,396	-	636,139	65.8%
2019	552,883	552,883	-	698,626	79.1%
2020	550,012	550,012	-	666,813	82.5%
2021	635,336	635,336	-	650,013	97.7%
2022	666,435	666,435	-	513,939	129.7%
2023	688,083	688,083	-	693,739	99.2%

CITY OF SHAMOKIN 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, 2023
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.5%
Cost-of-living adjustments	1.0%

CITY OF SHAMOKIN POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable Richard Ulrich
Mayor

Mr. Robert M. Slaby
City Administrator

Ms. Brenda L. Scandle
Treasurer

This report is a matter of public record and is available online at 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.