

COMPLIANCE AUDIT

Freeland Borough Police Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2020 to December 31, 2023

March 2025



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Freeland Borough
Luzerne County
Freeland, PA 18224

We have conducted a compliance audit of the Freeland Borough Police Pension Plan for the period January 1, 2020 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 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 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 that there were no benefit calculations prepared for the years covered by our audit period.
- 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 provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

The Freeland Borough Police Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Freeland Borough 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 objectives.

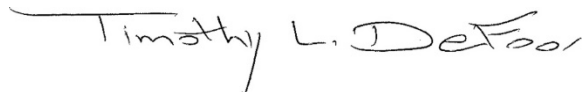
The results of our procedures indicated that, in all significant respects, the Freeland Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Finding No. 2 – Untimely Deposit 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 Freeland Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor
Auditor General
December 17, 2024

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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.

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 Freeland Borough 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Freeland Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2021-1028-04, and a separately executed plan agreement with the plan's custodian effective July 1, 2020, adopted pursuant to Act 15. Prior to July 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 5-13-1-2013 and a separately executed plan agreement with the plan's custodian, also adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established January 1, 1977. Active members are not required to contribute to the plan. Active members are required to contribute five percent of compensation to the plan; however, member contributions were waived for the years 2020 and 2021. As of December 31, 2023, the plan had two active members, no terminated members eligible for vested benefits in the future, and six retirees receiving pension benefits from the plan.

FREELAND BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

Freeland Borough has complied with the prior recommendation concerning the following:

- Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

The borough provided annual financial statements of transactions of the custodial account of the pension plan for all years under audit.

FREELAND BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not properly determine or fully pay the minimum municipal obligation (MMO) of the police pension plan for the year 2021, as required by Act 205. The MMO determined by the municipality for the year 2021 overstated member contributions by the amount of \$196,796. In addition, the municipality did not fully pay the minimum municipal obligation (MMO) that was due to the police pension plan for the year 2022, as required by Act 205. Based upon an estimate prepared by this department, the municipality had an unpaid MMO balance of \$47,124 for the years 2021 and 2022.

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.

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.

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 failure to comply with the Act 205 requirements was partly attributable to a turnover in the position of chief administrative officer of the pension plan in 2021. Furthermore, the overstatement of member contributions was attributable to a mathematical error on the 2021 MMO calculation.

FREELAND BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 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 2021 and 2022 MMOs by the December 31, 2021 and 2022 deadlines, the municipality must add the outstanding MMO balances to the current year’s MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the outstanding MMOs due to the police pension plan for the years 2021 and 2022, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculations must be maintained by the borough for examination during our next audit of the plan.

Furthermore, we recommend that, in the future, plan officials properly determine the amount of member contributions to be used in the MMO calculation and pay the full MMOs due to the plan.

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.

Finding No. 2 – Untimely Deposit Of State Aid

Condition: The municipality did not deposit its 2021 state aid allocation into an eligible pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2021 state aid allocation in the amount of \$40,238 on September 28, 2021, and deposited \$35,695 into its police pension plan on February 8, 2022, and \$4,543 into its non-uniformed pension plan on April 25, 2022. Both deposits did not meet the 30 day deposit requirement.

Additionally, the borough’s non-uniformed pension plan was fully funded and did not have any pension costs for the applicable period, therefore, both the 2020 and 2021 state aid allocations of \$18,561 and \$4,543, respectively, that were deposited into the non-uniform pension plan should have been deposited into the police pension plan (*refer to the finding in the non-uniformed pension plan report*).

FREELAND BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: The 2021 state aid was not deposited timely into the municipality’s pension plans because internal control procedures were not in effect to ensure the timely deposit of state aid. Also, municipal officials stated that there was a turnover in the position of chief administrative officer of the pension plan in 2021.

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: Based on the time-lapse for the portion of the 2022 allocation deposited into the police pension plan on February 8, 2022, we recommend that the municipality pay the police pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

In addition, we recommend that municipal officials transfer the state aid allocations totaling \$23,104 from the non-uniformed pension plan to the police pension plan, plus interest earned beyond the 30 day grace period for each allocation as allowed by Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Furthermore, we recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely and appropriately in accordance with Act 205 requirements.

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.

FREELAND 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, 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	\$ 1,474,345	\$ 1,558,188	\$ (83,843)	94.6%
01-01-21	1,518,727	1,232,278	(286,449)	123.2%
01-01-23	1,660,093	1,309,305	(350,788)	126.8%

FREELAND 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.

FREELAND BOROUGH 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
2014	\$ 4,684	\$ 11,178	\$ (6,494)	\$ 122,953	9.09%
2015	-	20	(20)	113,710	0.02%
2016	-	-	-	148,144	0.00%
2017	-	-	-	213,529	0.00%
2018	-	40	(40)	145,922	0.03%
2019	-	40	(40)	97,256	0.04%
2020	-	18,561	(18,561)	66,425	27.94%
2021*	52,230	52,230	-	113,931	45.84%
2022*	31,153	36,259	(5,106)	-	N/A
2023	-	40	(40)	165,457	0.02%

N/A – Not applicable

* The Actual Contributions were provided by PMRS in this table. Plan transaction statements and municipal records do not support these amounts for 2021 and 2022. *(Refer to Finding No. 1 in this report.)*

FREELAND 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, 2023
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
Asset valuation method	The Actuarial Value of Assets is the sum of all audited reserve accounts as of the valuation date, including Members', Municipal, Retired Members', Disability, and DROP Participants' Reserves, as provided in the December 31, 2022 ACFR, and a one-year administration expense reserve, plus any additional adjustments as made during the year by the Board of Trustees without reflecting any Excess Interest. This asset valuation is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law. ¹

Actuarial assumptions:

Investment rate of return *	5.25%, compounded annually, net of investment and administration expenses.
Projected salary increases *	2.2%-6.22% based on age and service
* Includes inflation at	2.2%
Cost-of-living adjustments	2.2% per year up to plan maximum

¹ The administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, which are not required to comply with Actuarial Standards of Practice (ASOP) when defining the Actuarial Value of Assets (AVA), do not necessarily meet the requirement of ASOP 44 Selection and Use of Asset Valuation Methods for Pension Valuations. The AVA provided within this report follow the Pennsylvania Municipal Retirement Law and the PMRS policy statement.

FREELAND BOROUGH 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 Joseph Palko Jr.
Mayor

Mr. Joshua Richie
Council President

Ms. Heather Donish
Secretary/Treasurer

Mr. Richard Cardamone, CPA, CGMA
Pennsylvania Municipal Retirement System

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