

COMPLIANCE AUDIT

Tremont Borough Police Pension Plan Schuylkill County, Pennsylvania

May 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
Tremont Borough
Schuylkill County
Tremont, PA 17981

We have conducted a compliance audit of the Tremont Borough Police Pension Plan 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 findings 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 findings 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:

- For the period January 1, 2022 to December 31, 2023, and through the completion of our fieldwork procedures, 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2018 to December 31, 2023, are presented on the Summary of Deposited State Aid and Employer Contributions.
- For the period January 1, 2022 to December 31, 2023, 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.
- For the period January 1, 2022 to December 31, 2023, we determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations.
- For the period January 1, 2022 to December 31, 2023, and through the completion of our fieldwork procedures, we determined that there were no benefit calculations prepared.
- We determined whether the January 1, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 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.
- For the period January 1, 2022 to December 31, 2023, we determined whether the terms of all of the plan's allocated insurance contracts, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

The borough has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 67 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

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

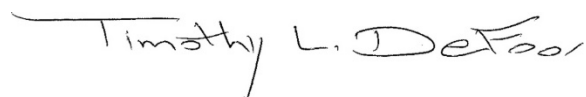
The results of our procedures indicated that, in all significant respects, the Tremont Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted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

Finding No. 1 – Partial Compliance With Prior Recommendation - Failure To File Actuarial Valuation Report

Finding No. 2 – Noncompliance With Prior Recommendation - Custodial Account Records Not Maintained By The Municipality

Finding Nos. 1 and 2 contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by borough officials. We are concerned by the borough's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

The contents of this report were discussed with officials of Tremont 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
March 28, 2025

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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 Tremont 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.

The Tremont Borough Police Pension Plan is a single-employer pension plan locally controlled by the provisions of Ordinance No. 3-1975, as amended. The plan was established December 6, 1948. Active members are not required to contribute to the plan. The municipality maintains a pension plan with no defined contributions and variable pension or retirement benefits provided, usually through discretionary purchases of insurance or annuity contracts. As of December 31, 2023, the plan had no active members, one terminated member eligible for vested benefits in the future, and no retirees receiving pension benefits.

The borough passed Ordinance No. 2020-03 on December 8, 2020, which disbanded its police department effective December 31, 2020.

TREMONT BOROUGH POLICE PENSION PLAN STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

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

- Failure To Fund Members' Accounts

The borough deposited the contributions due to the members' accounts for the year 2018 and properly funded the accounts thereafter.

Partial Compliance With Prior Recommendation

Tremont Borough has partially complied with the prior recommendation concerning the following:

- Failure To File Actuarial Valuation Report

The borough completed the January 1, 2017 Act 205 actuarial valuation report and submitted it to the Municipal Pension Reporting Program on October 25, 2019; however, plan officials failed to complete the January 1, 2023 Act 205 actuarial valuation report and submit it to the Municipal Pension Reporting by the March 31, 2024 deadline, as further discussed in Finding No. 1 in the Findings and Recommendations section of this report.

Noncompliance With Prior Recommendation

Tremont Borough has not complied with the prior recommendation concerning the following as further discussed in Finding No. 2 in the Findings and Recommendations section of this report:

- Custodial Account Records Not Maintained By The Municipality

TREMONT BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Recommendation – Failure To File Actuarial Valuation Report

Condition: As stated in the Status of Prior Findings section of this report, the borough submitted the January 1, 2017 Act 205 actuarial valuation report for the police pension plan to the Municipal Pension Reporting Program on October 25, 2019, which had been due March 31, 2018. However, the borough, again, failed to submit an actuarial valuation report form type A for the police pension plan with a valuation date of January 1, 2023, to the Municipal Pension Reporting Program by the March 31, 2024 deadline, as required by Act 205.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

In addition, Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

Finally, Section 402(e)(7) of Act 205 states, in part:

Any municipality which has not filed with the commission on a timely basis, pursuant to the applicable municipal pension plan actuarial reporting law, an actuarial report for each of the municipal pension plans which it has established or maintains shall be entitled to receive as general municipal pension system State aid, at such time as compliance with the actuarial reporting requirement occurs, the adjusted amount of general municipal pension system State aid per unit

TREMONT BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: The failure to file the necessary actuarial valuation report occurred because a key plan official had a lengthy absence from work and was not aware the plan consultant discontinued service to the borough as a client during this time.

Effect: Due to the late filing of the January 1, 2017 Act 205 actuarial valuation reports for both the police and non-uniformed pension plans, the borough's 2018 and 2019 state aid allocations were not able to be released until the necessary reports were filed. Therefore, state aid in the amounts of \$11,019 for 2018 and \$10,639 for 2019 was not released until December 2019, whereas state aid was released in September of the respective years to those municipalities who submitted their reports by the filing deadline. As a result, the borough did not have its state aid available timely to use for operating expenses and investment opportunities. In addition, data from the January 1, 2023 Act 205 actuarial valuation reports is necessary to calculate the borough's 2024 and 2025 state aid allocations; therefore, the borough's 2024 state aid allocation cannot be calculated and released until the necessary reports are filed for both the police and non-uniformed pension plans. Furthermore, the borough may receive less state aid than it would have received had the reports been filed in a timely manner.

Recommendation: We recommend that the municipality take immediate action to complete the January 1, 2023 Act 205 actuarial valuation report, which was due by March 31, 2024 and submit it to the Municipal Pension Reporting Program, 321 Finance Building, Harrisburg, PA 17120. By submitting the report as soon as possible, the municipality can minimize the length of time the pension aid will be withheld due to the delinquent filing of the required report.

Furthermore, to ensure that future actuarial filing deadlines are met and to improve pension plan administration, we again recommend that plan officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the actuarial valuation report filing date.

Management's Response: Borough officials agreed with the finding without exception. On December 17, 2024, the borough submitted the January 1, 2023 Act 205 actuarial valuation report for the police pension plan to the Municipal Pension Reporting Program.

Auditor's Conclusion: Based on the management response, it appears municipal officials have complied with the finding recommendation to submit the outstanding report. Full compliance with the finding recommendation will be evaluated during our next audit of the plan.

TREMONT BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Recommendation – Custodial Account Records Not Maintained By The Municipality

Condition: The municipality did not maintain copies of allocated insurance contracts, adequate financial records or statements of the custodial account of the police pension plan sufficient to effectively monitor the activity in this account during the years 2019 through 2023. A similar condition for the years 2016 through 2018 was reported in prior audit reports.

Criteria: Assets held in allocated insurance accounts for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

The minimum steps that should be applied by a municipality to adequately monitor the custodial account are:

- Verify the mathematical accuracy of the account statements;
- Reconcile the Commonwealth and municipal contributions shown on the account statements to the municipality's records;
- Review investment income for accuracy and reasonableness;
- Reconcile any large or material receipt, other than contributions, shown on the account statements to the municipality's records;
- Determine if investments are in accordance with applicable laws, regulations and policies;
- Reconcile investment income to the related investments;
- Reconcile pension payments shown on the account statements to the municipality's records; and
- Reconcile any large or material disbursement shown on the account statements to the municipality's records.

TREMONT BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Plan officials were aware of their fiduciary responsibility to monitor the allocated insurance accounts; however, the borough failed to adopt adequate internal control procedures over the pension plan. Also, a key plan official had a lengthy absence from work and was not aware the plan consultant dropped the borough as a client during this time. Plan officials were able to provide some but not all statements. Requests were sent to plan custodians to provide the remaining statements.

Effect: Although we were able to obtain copies from third-party sources in order to complete our audit procedures, the failure of plan officials to maintain adequate records prohibits municipal officials from effectively monitoring the plan's financial operations. Inadequate monitoring of the police pension plan account led to the borough losing the plan consultant and could lead to undetected errors or improprieties in account transactions and deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We again recommend that plan officials obtain copies of the allocated insurance contracts and again recommend that the municipality obtain annual financial statements of transactions in the custodial account of the police pension plan and monitor the statements as to the accuracy and propriety of the transactions.

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

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

TREMONT BOROUGH POLICE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS
(UNAUDITED)

Year Ended December 31	State Aid	Employer Contributions
2018	\$ 4,406	None
2019	4,256	None
2020	5,341	None
2021	None	None
2022	None	None
2023	None	None

TREMONT 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 Gerald Fasnacht
Mayor

Mr. William Ochs
Council President

Ms. Shea Lucas
Secretary/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.