

LIMITED PROCEDURES ENGAGEMENT

Adamstown Borough Non-Uniformed Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

December 2018



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 Borough Council
Adamstown Borough
Lancaster County
Adamstown, PA 19501

We conducted a Limited Procedures Engagement (LPE) of the Adamstown Borough Non-Uniformed Pension Plan for the period January 1, 2014 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 municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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 Adamstown Borough Non-Uniformed 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 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement

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.

The contents of this report were discussed with officials of Adamstown 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.

December 6, 2018



EUGENE A. DEPASQUALE
Auditor General

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ADAMSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Adamstown Borough has partially complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current engagement period, the municipality reimbursed \$2,207 to the Commonwealth for the overpayment of state aid received in the years 2011 and 2013. However, a similar condition was noted during the current engagement period. Plan officials again failed to appropriately reconcile the amount of state aid received and allocated to the non-uniformed pension plan with the pension plan's pension costs, as further discussed in the Finding and Recommendation section of this report.

ADAMSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement

Condition: As disclosed in the Status of Prior Finding section of this report, although the municipality partially complied with the prior recommendation by reimbursing the Commonwealth for the overpayment of state aid received in the years 2011 and 2013, plan officials again failed to properly reconcile the amount of state aid allocated to the non-uniformed pension plan along with available plan forfeitures, with the pension plan’s pension costs during 2014, as illustrated below:

	<u>2014</u>
Actual municipal pension costs	\$ 9,996
Forfeitures available	<u>(4,371)</u>
Adjusted actual municipal pension costs	5,625
State aid allocated	<u>(9,234)</u>
Excess state aid	<u><u>\$ 3,609</u></u>

In addition, it was also noted that the borough failed to deposit its entire allocation of state aid received during 2014 into its pension plan. The borough originally received \$11,442 in state aid during 2014; however, after returning \$1,447 to the Commonwealth and allocating \$9,234 towards the plan’s 2014 minimum municipal obligation as noted in the table above, \$761 in 2014 state aid remains in the borough’s general fund as of the date of this report.

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

ADAMSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, 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 fund or the alternate funding mechanism applicable to the pension plan.

Cause: The full amount of the 2014 state aid was not deposited into the pension plan because internal control procedures were not effective to ensure the deposit of the full amount of state aid received by the borough during 2014. In addition, plan officials failed to take into account available plan forfeitures when reconciling the amount of state aid received and deposited into the pension plan with the plan's actual pension costs prior to reimbursing excess state aid to the Commonwealth.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased. In addition, plan official's failure to take into account the forfeitures available to meet the borough's 2014 funding obligation, along with the borough's deposit of the excess state aid into the pension plan resulted in an increase in the plan's unallocated reserve fund balance which amounted to \$6,114 as of December 31, 2014. These reserve funds were subsequently liquidated and used to fund the pension plan's 2015 funding obligation.

It is this department's opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the total overpayment of state aid in the year 2014, in the total amount of \$4,370, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$4,370 of excess state aid received in the year 2014 to the Commonwealth from the borough's general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the 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 evidence of payment.

We also recommend that plan officials implement procedures to ensure that future state aid is deposited into the pension plan within 30 days of receipt by the municipal treasurer.

ADAMSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, we again recommend that, in the future, plan officials reconcile the borough's annual state aid allocation and any available employee forfeitures with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

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

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

ADAMSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 5 and 6 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, 2014, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 9,875	\$ 11,438	\$ 14,328
Interest	9,736	10,833	12,100
Difference between expected and actual experience	<u>(4,372)</u>	<u>-</u>	<u>-</u>
Net Change in Total Pension Liability	\$ 15,239	\$ 22,271	\$ 26,428
Total Pension Liability – Beginning	<u>177,246</u>	<u>192,485</u>	<u>214,756</u>
Total Pension Liability – Ending (a)	<u>\$ 192,485</u>	<u>\$ 214,756</u>	<u>\$ 241,184</u>
 Plan Fiduciary Net Position			
Contributions – employer *	\$ 9,234	\$ 5,344	\$ 14,328
Contributions – PMRS assessment	-	-	160
PMRS investment income	10,041	10,939	12,057
Market value investment income	(665)	(12,155)	3,980
PMRS administrative expense	(120)	(140)	(140)
Additional administrative expense	<u>(385)</u>	<u>(456)</u>	<u>(591)</u>
Net Change in Plan Fiduciary Net Position	\$ 18,105	\$ 3,532	\$ 29,794
Plan Fiduciary Net Position – Beginning	<u>177,670</u>	<u>195,775</u>	<u>199,307</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 195,775</u>	<u>\$ 199,307</u>	<u>\$ 229,101</u>
 Net Pension Liability – Ending (a-b)	<u>\$ (3,290)</u>	<u>\$ 15,449</u>	<u>\$ 12,083</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.71%	92.81%	94.99%
 Estimated Covered Employee Payroll	\$ 141,086	\$ 163,397	\$ 204,691
 Net Pension Liability as a Percentage of Covered Employee Payroll	(2.33%)	9.45%	5.90%

* 2015 employer contributions does not include \$6,234 transferred from the Municipal Reserve to Member Accounts.

ADAMSTOWN BOROUGH NON-UNIFORMED 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, 2014 and 2015, calculated using the discount rate of 5.5%, 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:

	<u>1% Decrease (4.5%)</u>	<u>Current Discount Rate (5.5%)</u>	<u>1% Increase (6.5%)</u>
Net Pension Liability - 12/31/14	\$ 35,207	\$ (3,290)	\$ (41,787)
Net Pension Liability - 12/31/15	\$ 58,400	\$ 15,449	\$ (27,502)

In addition, the following presents the net pension liability of the borough as of December 31, 2016, calculated using the discount rate of 5.25%, 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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ 60,319	\$ 12,083	\$ (36,154)

ADAMSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 14,237	\$ 70
2013	13,843	None
2014	9,234	None
2015	7,815	\$ 3,763
2016	11,256	3,232
2017	15,046	673

Note: In 2014, the borough met the plan's \$9,996 funding requirement through the deposit of \$9,234 in state aid and \$4,371 in terminated employee forfeitures. *(Refer to the finding and recommendation contained in this report.*

ADAMSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Commonwealth of Pennsylvania

The Honorable Dean Johnson
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CAO/Treasurer

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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