

COMPLIANCE AUDIT

Ambler Borough Police Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

July 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
Ambler Borough
Montgomery County
Ambler, PA 19002

We have conducted a compliance audit of the Ambler Borough Police Pension Plan for the period January 1, 2014 to December 31, 2017. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform 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 the plan member 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 benefit due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient. We also determined whether retirement benefits calculated for the plan member who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined 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.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- 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.

Ambler Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the borough's offices. Those 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 Ambler Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's

internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 Ambler 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 finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment 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 Ambler Borough and, where appropriate, their responses have been included in the report.

July 13, 2018



EUGENE A. DEPASQUALE
Auditor General

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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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 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 Ambler Borough Police Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Ambler Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 859, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. Active member are not required to contribute to the plan. As of December 31, 2017, the plan had 12 active members, 1 terminated member eligible for vested benefits in the future, and 10 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service.
Early Retirement	20 years of service.
Vesting	Member is 100% vested after 12 years of service.

Retirement Benefit:

Life income consisting of 50% of the member's average salary for the last 36 months, plus \$100 per month per year of service in excess of 25, up to maximum of 30 years of service, or \$500 per month.

Survivor Benefit:

Upon the death of a member, the surviving spouse will receive 50% lifetime continuance of the pension

Service Related Disability Benefit:

Benefit equals 75% of the member's salary rate at the time the disability was incurred, offset by worker's compensation until normal retirement date when the benefit converts to a normal retirement benefit.

AMBLER BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The borough certified one ineligible police officer (2 units) and overstated payroll by \$96,083 on the Certification Form AG 385 filed in 2014. The ineligible police officer retired effective March 1, 2013, and entered the borough’s Deferred Retirement Option Program (DROP). In addition, the borough understated police payroll by \$41,893 on the Certification Form AG 385 filed in 2015 and understated non-uniformed payroll by \$109,314 on the Certification Form AG 385 filed in 2017. The data contained on these certification forms are based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Furthermore, Act 205 at Section 402(e)(2) states, in part:

For the purpose of computing and reporting the applicable number of units, a DROP participant shall not be reported to the Auditor General as an active employee.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified. In addition, plan officials were unaware that DROP participants and their compensation are not eligible for certification. Moreover, the borough understated non-uniformed payroll because the borough only certified wages once employees entered the plan after their initial 6 month waiting period.

AMBLER BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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 borough’s 2014, 2015 and 2017 state aid allocations were based on pension costs, the incorrect certification of pension data affected the borough’s state aid allocations, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Normal Cost</u>	<u>Payroll Overstated (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2014	Police	17.26649%	\$ 96,083	\$ 16,590
2015	Police	17.26649%	(41,893)	(7,234)
2017	Non-Uniformed Defined Contribution	5.56004%	(109,314)	<u>(6,078)</u>
Net Overpayment of State Aid				<u>\$ 3,278</u>

In addition, the borough used the overpayment of state aid to pay the minimum municipal obligations (MMOs) due to the police and/or non-uniformed defined benefit pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plans’ MMOs will not be fully paid.

Recommendation: We recommend that the total overpayment of state aid, in the amount of \$3,278, 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.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 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 and/or non-uniformed defined benefit pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plans with interest, at a rate earned by the pension plans.

AMBLER BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

AMBLER BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 6 through 8 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, AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 185,346	\$ 189,639
Interest	485,671	476,105
Difference between expected and actual experience	21,162	(8,523)
Changes of assumptions	-	537,035
Benefit payments, including refunds of member contributions	(196,708)	(238,114)
Net Change in Total Pension Liability	<u>495,471</u>	<u>956,142</u>
Total Pension Liability – Beginning	6,582,169	*6,798,375
Total Pension Liability - Ending (a)	<u><u>\$ 7,077,640</u></u>	<u><u>\$ 7,754,517</u></u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 28,315	\$ 31,499
Net investment income	877,758	(609,254)
Benefit payments, including refunds of member contributions	(196,708)	(238,114)
Administrative expense	(42,156)	(72,210)
Other	495	(7,634)
Net Change in Plan Fiduciary Net Position	<u>667,704</u>	<u>(895,713)</u>
Plan Fiduciary Net Position – Beginning	8,915,877	9,583,581
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 9,583,581</u></u>	<u><u>\$ 8,687,868</u></u>
 Net Pension Liability - Ending (a-b)	<u><u>\$ (2,505,941)</u></u>	<u><u>\$ (933,351)</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	135.41%	112.04%
 Estimated Covered Employee Payroll	\$ 1,030,020	\$ 968,450
 Net Pension Liability as a Percentage of Covered Employee Payroll	(243.29%)	(96.38%)

* Total Pension Liability-Beginning balance adjusted by CPA firm in subsequent audit conducted of the borough's financial statements.

AMBLER BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016, AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 193,189	\$ 215,986
Interest	541,021	567,664
Changes of assumptions	203,617	-
Difference between expected and actual experience	(18,823)	(329,953)
Benefit payments, including refunds of member contributions	(348,029)	(263,271)
Net Change in Total Pension Liability	<u>570,975</u>	<u>190,426</u>
Total Pension Liability – Beginning	<u>7,754,517</u>	<u>8,325,492</u>
Total Pension Liability - Ending (a)	<u>\$ 8,325,492</u>	<u>\$ 8,515,918</u>
Plan Fiduciary Net Position		
Contribution – employer	\$ -	\$ -
Net investment income	648,519	1,263,839
Benefit payments, including refunds of member contributions	(348,029)	(263,271)
Administrative expense	(64,075)	(87,900)
Other income	14,826	-
Net Change in Plan Fiduciary Net Position	<u>251,241</u>	<u>912,668</u>
Plan Fiduciary Net Position – Beginning	<u>8,687,868</u>	<u>8,939,109</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 8,939,109</u>	<u>\$ 9,851,777</u>
Net Pension Liability - Ending (a-b)	<u>\$ (613,617)</u>	<u>\$ (1,335,859)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	103.37%	115.69%
Estimated Covered Employee Payroll	\$ 1,040,716	\$ 1,084,947
Net Pension Liability as a Percentage of Covered Employee Payroll	(58.96%)	(123.13%)

AMBLER 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, 2015, 2016, and 2017, calculated using the discount rate of 6.75%, 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 (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability - 12/31/15	\$ 129,876	\$ (933,351)	\$ (1,804,717)
Net Pension Liability - 12/31/16	\$ 283,419	\$ (817,234)	\$ (1,726,121)
Net Pension Liability - 12/31/17	\$ (211,365)	\$ (1,335,859)	\$ (2,262,456)

The following presents the net pension liability of the borough as of December 31, 2014 calculated using the discount rate of 7.50%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability - 12/31/14	\$ (1,607,890)	\$ (2,505,941)	\$ (3,252,138)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2017	11.70%
2016	7.69%
2015	(6.27%)
2014	6.20%

AMBLER 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	\$ 7,669,350	\$ 6,235,948	\$ (1,433,402)	123.0%
01-01-15	9,583,581	7,571,133	(2,012,448)	126.6%
01-01-17	9,142,726	8,046,337	(1,096,389)	113.6%

AMBLER 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.

AMBLER BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	None	N/A
2013	None	N/A
2014	None	N/A
2015	\$ 31,094	101.3%
2016	None	N/A
2017	None	N/A

AMBLER 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	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.25%
Cost-of-living adjustments	Granted per the increase in the Consumer Price Index for all urban consumers.

AMBLER BOROUGH POLICE PENSION PLAN
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This report was initially distributed to the following:

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