

# LIMITED PROCEDURES ENGAGEMENT

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## Freedom Borough Non-Uniformed Pension Plan Beaver County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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December 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

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EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and Borough Council  
Freedom Borough  
Beaver County  
Freedom, PA 15042

We conducted a Limited Procedures Engagement (LPE) of the Freedom Borough Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2016 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 findings 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 retirement benefits calculated for plan members who retired during the engagement 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 pension benefits due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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 Freedom 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 findings further discussed later in this report:

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

The finding contained in this report repeats a condition that was cited in our previous audit report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendations noted in this report.

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 Freedom 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 14, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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FREEDOM BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Freedom Borough has complied with the prior audit recommendations concerning the following:

- Incorrect Data On Certification AG 385 Resulting In An Underpayment Of State Aid.

During the current audit period, municipal officials complied with the instructions that accompanied Certification Form AG 385 and accurately reported the required pension data.

Partial Compliance With Prior Audit Recommendation

Freedom Borough has partially complied with the prior audit recommendations concerning the following:

- Receipt Of State Aid In Excess Of Entitlement.

During the current audit period, the borough reimbursed \$1,197 to the Commonwealth for the overpayment of state aid in 2011; however, a similar condition occurred during the current period and plan officials again failed to reconcile the borough's annual state allocation with the plan's annual pension cost as further discussed in the Finding and Recommendation section of this report.

FREEDOM 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 Findings section of this report, although the borough partially complied with the prior recommendation by reimbursing the Commonwealth for the overpayment of state aid in 2011, a similar condition occurred during the current period. Plan officials again failed to reconcile the borough’s annual state allocation with the plan’s annual pension cost for the year 2017 and reimburse any excess to the Commonwealth, as illustrated below:

	<u>2017</u>
State aid allocation	\$ 10,008
Actual municipal pension costs	<u>(9,554)</u>
Excess state aid	<u>\$ 454</u>

In addition, it was also noted that this excess state aid remains in the borough’s general fund as of the date of this report and was not originally deposited in accordance with Act 205.

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.

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.

FREEDOM BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Cause: Plan officials again failed to establish adequate and consistent internal control procedures to reconcile the borough's annual state aid allocation with the plan's actual pension costs. In addition, the full amount of the 2017 state aid was not deposited into the pension plan because internal control procedures were also not effective to ensure the deposit of the full amount of state aid received during 2017.

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.

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 overpayment of state aid in the year 2017 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$454 of excess state aid received in the year 2017 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.

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

Management's Response: Municipal officials agreed with finding without exception. Based on the results of the engagement, subsequent to the current period, on November 13, 2018, the borough reimbursed the Commonwealth \$481 representing the \$454 excess state aid and included interest.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply fully with the finding recommendations as noted with the repayment of the excess state aid. Compliance with the remainder of the recommendation will be evaluated during the next plan engagement.



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

The supplementary information contained on Pages 4 and 5 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	\$ 10,938	\$ 11,884	\$ 12,976
Interest	6,712	7,588	8,369
Difference between expected and actual experience	29	(2,575)	1,571
Changes of assumptions	-	(16)	1,167
Benefit payments, including refunds of member contributions	(2,881)	(1,440)	(4,321)
Net Change in Total Pension Liability	<u>14,798</u>	<u>15,441</u>	<u>19,762</u>
Total Pension Liability – Beginning	119,193	133,991	149,432
Total Pension Liability – Ending (a)	<u>\$ 133,991</u>	<u>\$ 149,432</u>	<u>\$ 169,194</u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 9,778	\$ 9,983	\$ 10,037
Contributions – PMRS assessment	-	80	80
Contributions – employee	1,275	1,925	2,939
PMRS investment income	6,644	7,507	8,280
Market value investment income	(523)	(11,328)	4,810
Benefit payments, including refunds of member contributions	(2,881)	(1,440)	(4,321)
PMRS administrative expense	(80)	(80)	(80)
Additional administrative expense	(255)	(313)	(406)
Net Change in Plan Fiduciary Net Position	<u>13,958</u>	<u>6,334</u>	<u>21,339</u>
Plan Fiduciary Net Position – Beginning	117,200	131,158	137,492
Plan Fiduciary Net Position – Ending (b)	<u>\$ 131,158</u>	<u>\$ 137,492</u>	<u>\$ 158,831</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,833</u>	<u>\$ 11,940</u>	<u>\$ 10,363</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.89%	92.01%	93.88%
Estimated Covered Employee Payroll	\$ 96,628	\$ 99,591	\$ 100,373
Net Pension Liability as a Percentage of Covered Employee Payroll	2.93%	11.99%	10.32%

\* Employer contributions for 2014 and 2015 include interest paid by the borough.

FREEDOM 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 5.50%, 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 (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability – 12/31/14	\$ 26,370	\$ 2,833	\$ (19,723)
Net Pension Liability – 12/31/15	\$ 38,572	\$ 11,940	\$ (13,777)

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:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability – 12/31/2016	\$ 40,916	\$ 10,363	\$ (19,261)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 7,150	\$ 1,247
2013	8,190	1,166
2014	9,276	467
2015	9,663	376
2016	9,959	158
2017	9,554	None

FREEDOM BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Arthur D. Evans, Jr.**  
Mayor

**Mr. Gary Gilarno**  
Council President

**Mr. Mark Forrest**  
Councilman

**Ms. Sydney Kaercher**  
Councilwoman

**Ms. Karen Willison**  
Chief Administrative Officer

**Ms. Charity Rosenberry, CPA**  
Pennsylvania Municipal Retirement System

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