

# LIMITED PROCEDURES ENGAGEMENT

---

## Mercer Borough Police Pension Plan Mercer County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

---

January 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and Borough Council  
Mercer Borough  
Mercer County  
Mercer, PA 16137

We conducted a Limited Procedures Engagement (LPE) of the Mercer Borough Police Pension Plan for the period January 1, 2016 to December 31, 2018 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 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.
- 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.
- 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 monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.

- Whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.
- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Mercer Borough Police 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 – Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments

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 Mercer 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 11, 2019



EUGENE A. DEPASQUALE  
Auditor General

# CONTENTS

	<u>Page</u>
Finding And Recommendation:	
Finding – Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments .....	1
Supplementary Information .....	2
Report Distribution List .....	8

MERCER BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Data On Certification Form AG 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments**

Condition: The borough improperly certified special ad hoc postretirement adjustments in the amount of \$275 for an individual during 2015 on Form AG 490 filed in 2016. The individual died on January 11, 2015, with no survivor benefits payable after his death; however, the borough certified payments through December 2015.

Criteria: Pursuant to Act 147, Certification Form AG 490 should report only the amount of special ad hoc postretirement adjustments paid in the previous year to eligible retirees and/or their surviving spouses.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: Because the borough’s reimbursement is determined based on amounts reported on the Form AG 490, the borough received excess reimbursement in 2016, totaling \$275, as illustrated below:

<u>Year</u>	<u>Reimbursement Certified</u>	<u>Reimbursement Due</u>	<u>Excess Reimbursement</u>
2016	\$ 300	\$ 25	\$ 275

Recommendation: We recommend that the total excess reimbursement, in the amount of \$275, 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.

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

Auditor’s Conclusion: The borough’s compliance with the finding recommendation will be monitored subsequent to the release of the LPE report and through our next plan engagement.

MERCER BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 2 through 4 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, 2016, AND 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability				
Service cost	\$ 48,978	\$ 49,024	\$ 39,930	\$ 34,957
Interest	65,376	69,664	73,016	68,024
Difference between expected and actual experience	(22,968)	-	(156,939)	-
Changes of assumptions	-	(36,936)	40,313	-
Benefit payments, including refunds of member contributions	(15,191)	(11,704)	(11,711)	(35,025)
Net Change in Total Pension Liability	<u>76,195</u>	<u>70,048</u>	<u>(15,391)</u>	<u>67,956</u>
Total Pension Liability – Beginning	1,147,176	1,223,371	1,293,419	1,278,028
Total Pension Liability – Ending (a)	<u>\$ 1,223,371</u>	<u>\$ 1,293,419</u>	<u>\$ 1,278,028</u>	<u>\$ 1,345,984</u>
Plan Fiduciary Net Position				
Contributions – employer *	\$ 32,111	\$ 31,367	\$ 31,367	\$ 36,706
Contributions – PMRS assessment	-	-	-	20
PMRS investment income	72,506	78,212	82,186	73,939
Market value investment income	8,227	(109,055)	33,462	160,877
Benefit payments	(15,191)	(11,704)	(11,711)	(35,025)
PMRS administrative expense	(120)	(120)	(120)	(100)
Additional administrative expense	(2,781)	(3,261)	(4,026)	(3,400)
Net Change in Plan Fiduciary Net Position	<u>94,752</u>	<u>(14,561)</u>	<u>131,158</u>	<u>233,017</u>
Plan Fiduciary Net Position – Beginning	1,307,090	1,401,842	1,387,281	1,518,439
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,401,842</u>	<u>\$ 1,387,281</u>	<u>\$ 1,518,439</u>	<u>\$ 1,751,456</u>
Net Pension Liability – Ending (a-b)	<u>\$ (178,471)</u>	<u>\$ (93,862)</u>	<u>\$ (240,411)</u>	<u>\$ (405,472)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	114.59%	107.26%	118.81%	130.12%
Estimated Covered Employee Payroll	\$ 207,854	\$ 207,994	\$ 203,424	\$ 161,866
Net Pension Liability as a Percentage of Covered Employee Payroll	(85.86%)	(45.13%)	(118.18%)	(250.50%)

\* Does not include administrative expense and totals include surplus contributions made.

MERCER 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, 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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability – 12/31/14	\$ (3,508)	\$ (178,471)	\$ (323,687)
Net Pension Liability – 12/31/15	\$ 87,969	\$ (93,862)	\$ (244,618)

In addition, the following presents the net pension liability of the borough as of December 31, 2016 and 2017, 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	\$ (59,012)	\$ (240,411)	\$ (391,243)
Net Pension Liability – 12/31/17	\$ (214,428)	\$ (405,472)	\$ (564,324)

MERCER 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	\$ 19,342	\$ 32,111	\$ (12,769)	\$ 207,854	15.45%
2015	27,592	31,367	(3,775)	207,994	15.08%
2016	27,982	31,367	(3,385)	203,424	15.42%
2017	27,377	36,726	(9,349)	161,866	22.69%
2018	15,395	28,106	(12,711)	*	

\* Due to the timing of this engagement, covered-employee payroll for 2018 was not provided in this schedule.



MERCER 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	\$ 1,208,617	\$ 1,021,966	\$ (186,651)	118.3%
01-01-15	1,425,855	1,223,371	(202,484)	116.6%
01-01-17	1,606,345	1,278,028	(328,317)	125.7%

MERCER 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.

MERCER 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	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing 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, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.

Actuarial assumptions:

Investment rate of return	5.25%, compounded annually, net of investment and administration expenses.
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%).
Cost-of-living adjustments	2.8% per year, subject to plan limitations.

MERCER BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**The Honorable Ross Vernon**  
Mayor

**Ms. Beth Hillmar**  
Council President

**Ms. Deborah K. Sarvis**  
Secretary

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

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).