

LIMITED PROCEDURES ENGAGEMENT

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

August 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
Moscow Borough
Lackawanna County
Moscow, PA 18444

We conducted a Limited Procedures Engagement (LPE) of the Moscow 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 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 annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.

- 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 Moscow 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 – Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan

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 Moscow 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.

August 10, 2018



EUGENE A. DEPASQUALE
Auditor General

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MOSCOW BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan

Condition: The municipality did not deposit the full amount of its 2016 and 2017 state aid allocations into an eligible pension plan. The municipality received its 2016 and 2017 state aid allocations in the amount of \$13,516 and \$13,538, on September 27 2016 and September 27, 2017, respectively; however, as of the date of this report, only state aid amounts totaling \$11,207 and \$13,332, respectively, were deposited into an eligible pension plan.

Criteria: 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 funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: The full amount of the 2016 and 2017 state aid allocations were not deposited into an eligible pension plan because adequate internal control procedures were not in effect to ensure that the full amounts of state aid received by the borough were appropriately deposited.

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.

Recommendation: Since the actuarial value of assets exceeds the actuarial present value of future benefits for the borough's police pension plan as of January 1, 2017, the most recent actuarial valuation conducted, we recommend that the municipality deposit the borough's total remaining outstanding state aid in the amount of \$2,505, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, into its non-uniformed pension plan. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

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

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

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

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

The supplementary information contained on Pages 2 and 3 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	\$ 12,937	\$ 13,248	\$ 12,883
Interest	5,337	7,025	7,578
Difference between expected and actual experience	12,100	-	13,271
Changes of assumptions	-	(9,853)	5,834
Net Change in Total Pension Liability	<u>30,374</u>	<u>10,420</u>	<u>39,566</u>
Total Pension Liability – Beginning	<u>84,101</u>	<u>114,475</u>	<u>124,895</u>
Total Pension Liability - Ending (a)	<u>\$ 114,475</u>	<u>\$ 124,895</u>	<u>\$ 164,461</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 11,011	\$ 11,421	\$ 11,127
Contributions – PMRS assessment	-	80	80
Contributions – employee	3,731	3,916	3,926
PMRS investment income	3,715	4,916	6,041
Market value investment income	(411)	(5,789)	1,308
Administrative expense	(80)	(80)	(80)
Additional administrative expense	(142)	(205)	(296)
Net Change in Plan Fiduciary Net Position	<u>17,824</u>	<u>14,259</u>	<u>22,106</u>
Plan Fiduciary Net Position - Beginning	<u>58,909</u>	<u>76,733</u>	<u>90,992</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 76,733</u>	<u>\$ 90,992</u>	<u>\$ 113,098</u>
Net Pension Liability - Ending (a-b)	<u>\$ 37,742</u>	<u>\$ 33,903</u>	<u>\$ 51,363</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.03%	72.85%	68.77%
Estimated Covered Employee Payroll	\$ 126,907	\$ 130,543	\$ 130,856
Net Pension Liability as a Percentage of Covered Employee Payroll	29.74%	25.97%	39.25%

MOSCOW 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:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability - 12/31/14	\$ 56,854	\$ 37,742	\$ 21,863
Net Pension Liability - 12/31/15	\$ 54,487	\$ 33,903	\$ 16,839

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	\$ 77,596	\$ 51,363	\$ 29,542

MOSCOW BOROUGH NON-UNIFORMED 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	\$ 46,603	\$ 67,301	\$ 20,698	69.2%
01-01-15	77,745	114,475	36,730	67.9%
01-01-17	118,879	164,461	45,582	72.3%

MOSCOW BOROUGH NON-UNIFORMED 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.

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 9,688	100.0%
2013	6,510	100.0%
2014	6,339	173.7%
2015	10,758	106.9%
2016	11,207	100.0%
2017	13,342	100.0%

MOSCOW BOROUGH NON-UNIFORMED 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	Level dollar
Remaining amortization period	11 years
Asset valuation method	Fair value
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 30 - 5.44 %; age 40 – 4.26%; age 50 – 3.72%; age 60 - 3.28%)
Cost-of-living adjustments	2.8% per year, subject to plan limitations

MOSCOW BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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