

COMPLIANCE AUDIT

Narberth Borough Police Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2017 to December 31, 2019

April 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Narberth Borough
Montgomery County
Narberth, PA 19072

We have conducted a compliance audit of the Narberth Borough Police Pension Plan for the period January 1, 2017 to December 31, 2019. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior report; and
2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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 benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018, and 2020, 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 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.

Narberth Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ending December 31, 2017 and 2018, 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 Narberth Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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.

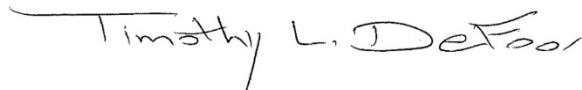
The results of our procedures indicated that, in all significant respects, the Narberth Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Recommendation – Inconsistent Pension Benefits
- Finding No. 2 – Noncompliance With Prior Recommendation – Deferred Retirement Option Plan Not Adopted By Ordinance

The findings contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by borough officials. We are concerned by the borough's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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. However, we are extremely concerned about the historical trend information contained in the schedule of funding progress included in this report which indicates a continued decline of assets available to satisfy the long-term liabilities of the plan. The plan's funded ratio went from 70.4% as of January 1, 2015, to a ratio of 56.0% as of January 1, 2019, which is the most recent data available. We encourage borough officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Narberth Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor
Auditor General

March 18, 2021

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	2
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Recommendation – Inconsistent Pension Benefits.....	3
Finding No. 2 – Noncompliance With Prior Recommendation – Deferred Retirement Option Plan Not Adopted By Ordinance	4
Supplementary Information	6
Report Distribution List	10

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 Narberth 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 147 Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Narberth Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 478, 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. The plan was established January 1, 1958. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2019, the plan had 6 active members, no terminated members eligible for vested benefits in the future, and 10 retirees receiving pension benefits.

NARBERTH BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendations

Narberth Borough has complied with the prior recommendations concerning the following:

- Failure To Fully Pay The Minimum Municipal Obligation (MMO) Of The Plan

The borough deposited the outstanding MMO due to the police pension plan for the year 2016 in accordance with Section 302(e) of Act 205; and

- Failure To Maintain An Adequate Record-Keeping System

Plan officials established and maintained a financial record-keeping system that allowed for the effective monitoring of the plan's financial operations and provided effective control over the assets, revenue, and expenses of the pension plan.

Noncompliance With Prior Recommendations

Narberth Borough has not complied with the prior recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Inconsistent Pension Benefits; and

Deferred Retirement Option Plan Not Adopted By Ordinance.

NARBERTH BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the five most recent prior audit reports, certain benefit provisions contained in the plan’s governing document, the collective bargaining agreement (CBA) between the police officers and the borough, continue to conflict with each other and remain inconsistent with Act 600, as amended, as noted below:

Benefit Provision	Governing Document	Collective Bargaining Agreement through 2018	Act 600
Retirement age	Age 53	Age 53	Age 55 or, if actuarially feasible, age 50.
Member contributions	Set annually by resolution at 2% - 5% of Social Security wages and 5% - 8% of wages over Social Security wages.	No provision	5% of compensation but may be reduced or waived annually by resolution.
Service connected disability	100% of base salary on the date of such disability.	70% of base salary on the date such disability is incurred.	At least 50% of the member’s salary at the time of disability.

During the current audit period, the benefit provisions reported in the January 1, 2017 and January 1, 2019 actuarial valuation reports were consistent with the provisions contained in the plan’s governing document except for the service-connected disability benefit provision in the January 1, 2019 actuarial valuation report which contains the provision stated in the CBA.

Criteria: The benefit provisions contained in the plan’s governing document and collective bargaining agreement should be consistent and in compliance with Act 600, to ensure the proper administration of the pension plan.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation. In addition, there was a turnover in municipal officials and new management was unaware of this finding.

NARBERTH BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that borough officials take appropriate action to ensure the plan's benefit provisions are consistent within the various plan documents and in compliance with Act 600, as amended, at their earliest opportunity to do so.

Management's Response: Municipal officials agreed with the finding without exception. Municipal officials have reviewed the audit, the municipal code, and the collective bargaining agreement, and agree with the audit's finding. The Borough has consulted with its solicitor and has identified the changes necessary for compliance and consistency. Presently, the Borough is in negotiations with the police over the terms of the collective bargaining agreement, and intends to ensure Act 600 compliance with any agreement. Once the collective bargaining agreement is negotiated, the Borough will be able to fully and promptly address the inconsistencies prior to the next pension audit cycle. Specifically, once the collective bargaining agreement is negotiated, the Borough will promptly proceed to amend the Borough's ordinances to ensure consistency with Act 600 and the effective collective bargaining agreement.

Auditor's Conclusion: 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 audit report.

Finding No. 2 – Noncompliance With Prior Recommendation – Deferred Retirement Option Plan Not Adopted By Ordinance

Condition: As disclosed in the prior audit report, the terms, provisions, and conditions of the Deferred Retirement Option Plan (DROP) were adopted in the collective bargaining agreement (CBA) between the borough and its police officers for the period January 1, 2011 through December 31, 2014, as well as the CBA covering the period January 1, 2015 through December 31, 2018. *(The CBA for the period starting January 1, 2019 remains in arbitration.)* However, the DROP still has not been formally adopted by ordinance to properly amend the plan's benefit structure.

NARBERTH BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Act 600 at Section 1(a)(1) states, in part:

Each borough, town and township of this Commonwealth maintaining a police force of three or more full-time members and each regional police department shall, and all other boroughs, towns or townships may, establish, by ordinance or resolution, a police pension fund. . . .

Furthermore, in Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution. Since the Narberth Borough Police Pension Plan was established by ordinance, it must be amended by ordinance.

Cause: Plan officials failed to establish internal control procedures to ensure that the DROP was formally adopted through a properly executed ordinance and compliance with the department's prior recommendation.

Effect: The failure to include the DROP benefit provisions in the plan's governing document could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that municipal officials take appropriate action to formally adopt the DROP through a properly executed ordinance.

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.

NARBERTH 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, 2015, 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)
01-01-15	\$ 2,859,061	\$ 4,063,786	\$ 1,204,725	70.4%
01-01-17	2,927,423	5,905,413	2,977,990	49.6%
01-01-19	3,385,355	6,042,539	2,657,184	56.0%

Note: The market values of the plan's assets at 01-01-15, 01-01-17 and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

The Actuarial Accrued Liability as of 01-01-17 reflects a disability benefit which began July 1, 2015.

NARBERTH 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.

NARBERTH BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2011	\$ 117,935	\$ 117,935	\$ -	\$ 437,846	26.94%
2012	116,899	116,899	-	426,645	27.40%
2013	109,940	110,140	(200)	403,766	27.28%
2014	104,847	104,847	-	431,319	24.31%
2015	181,207	234,300	(53,093)	471,170	49.73%
2016	265,690	278,696	(13,006)	517,098	53.90%
2017	289,614	435,479	(145,865)	518,000	84.07%
2018	481,930	482,080	(150)	478,315	100.79%
2019	463,062	463,062	-	621,699	74.48%

NARBERTH 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	5.0%
Projected salary increases	3.0%
Cost-of-living adjustments	In accordance with Act 600

NARBERTH 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 Name Andrea Deutsch
Mayor

Mr. Aaron Muderick
Council President

Mr. Matt West
Interim Borough Manager

Ms. Michelle Carroll
Office Manager

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