

LIMITED PROCEDURES ENGAGEMENT

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

June 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
Oxford Borough
Chester County
Oxford, PA 19363

We conducted a Limited Procedures Engagement (LPE) of the Oxford Borough Police 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 municipal officials took appropriate corrective action to address the finding 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.
- 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 to the former Public Employee Retirement Commission (PERC) 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.
- Whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Oxford 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 findings further discussed later in this report:

Finding No. 1 – Partial Compliance With Prior Audit Recommendation –
Unauthorized Member Contributions Provision

Finding No. 2 – Inconsistent Pension Provision Not In Compliance With Act 600

Finding No. 1 contained in this LPE 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 recommendation 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 Oxford 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.

June 11, 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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OXFORD BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Unauthorized Member Contributions Provision Not In Compliance With Act 600

OXFORD BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Unauthorized Member Contributions Provision

Condition: As disclosed in the prior audit report, the member contributions provision contained in the plan’s governing document and the collective bargaining agreement (CBA) between the police officers and the borough for the period 2014-2018 remains non-compliant with Act 600, as noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Members’ contribution rate	Active Participant’s required Contribution shall be equal to four percent (4%) of his compensation for the month. (Section 3.01A of the separately executed group annuity contract restated January 1, 2008, as amended)	Officers will continue their contributory share of four percent (4%) into the pension fund, and such contribution shall be capped at 4% for the duration of this Agreement. (2014-2018 agreement, Article 13, Section D)	Not less than 5% nor more than 8% of monthly compensation. The governing body of the borough may, on an <u>annual</u> basis, by ordinance or resolution, reduce or eliminate member contributions. (Emphasis added)

Members began contributing to the pension plan at a rate of 4 percent of compensation beginning in 2010 pursuant to the CBA; however, this rate is not in accordance with Act 600 and the borough is not reducing members’ contributions properly on an annual basis in accordance with Act 600.

Criteria: Although a municipality has the option to reduce or eliminate members’ contributions annually through the adoption of an ordinance or resolution, the established members’ contribution rate in the plan’s governing document and CBA should be in compliance with Act 600 and reduced or eliminated accordingly.

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

OXFORD BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that municipality officials take appropriate action to ensure that the member contributions provision contained in the plan’s governing document and the CBA are in compliance with Act 600 at their earliest opportunity to do so.

Furthermore, we again recommend that plan officials establish adequate internal control procedures to ensure that member contribution are reduced or eliminated in accordance with Act 600 provisions.

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

Auditor’s Conclusion: Compliance will be evaluated during our next engagement of the plan.

Finding No. 2 – Inconsistent Pension Provision Not In Compliance With Act 600

Condition: The pension plan’s governing document, Ordinance No. 812-2007, as amended, contains a retirement provision that conflicts with the current CBA between the police officers and the borough covering the period January 1, 2014 to December 31, 2018 and the provision contained in the CBA is contrary to Act 600, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Normal Retirement	The earliest first day of the month on or after the later of the date the participant reaches his 55 th birthday OR the date he completes 25 years of accrual service.	Any officer hired on or after January 1, 1995, Officer will be eligible to retire at age fifty (50) AND after having provided at least twenty-five (25) years of service with the Borough... Notwithstanding the above, the following Officers shall be eligible to retire after having provided at least twenty (20) years of service and reaching age fifty-five (55): <i>(3 officers specified)</i>	An age of 55; or age 50, if supported by an actuarial cost study AND minimum of 25 years of aggregate police service within the municipality

OXFORD BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. In addition, the police pension plan's benefit structure should be in compliance with Act 600, as amended. The plan's governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Municipal officials failed to update the plan's governing document for benefits modified through the collective bargaining process and ensure adherence with the provisions of Act 600. Plan officials failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained consistent benefit provisions.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. In addition, maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled. Furthermore, providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses.

Recommendation: We recommend that municipal officials amend the plan's governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents at their earliest opportunity to do so. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, municipal officials should consult with the plan's actuary to determine if Supplemental Actuarial Information Form AG-MP-1 should be prepared. If it is determined the excess benefits had an impact on the borough's state aid allocations received during and subsequent to the current period, the form should be submitted to the department. Furthermore, after the submission of the form, the plan's actuary should contact the department to verify the overpayment of state aid received and plan officials should then reimburse the overpayment to the Commonwealth.

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

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

OXFORD BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The supplementary information contained on Pages 5 through 7 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	\$ 100,891	\$ 106,075	\$ 110,848
Interest	148,293	163,134	179,779
Difference between expected and actual experience	-	(54,005)	-
Changes of assumptions	-	41,805	-
Benefit payments, including refunds of member contributions	(48,175)	(40,416)	(63,668)
Net Change in Total Pension Liability	<u>201,009</u>	<u>216,593</u>	<u>226,959</u>
Total Pension Liability – Beginning	<u>1,900,438</u>	<u>2,101,447</u>	<u>2,318,040</u>
Total Pension Liability - Ending (a)	<u>\$ 2,101,447</u>	<u>\$ 2,318,040</u>	<u>\$ 2,544,999</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 12,714	\$ 14,346	\$ 8,156
Contributions – state aid	127,798	129,388	139,989
Contribution – member	31,075	34,876	33,476
Net investment income	67,264	(23,399)	82,237
Benefit payments, including refunds of member contributions	(48,175)	(40,416)	(63,668)
Administrative expense	(5,750)	(6,250)	(4,290)
Net Change in Plan Fiduciary Net Position	<u>184,926</u>	<u>108,545</u>	<u>195,900</u>
Plan Fiduciary Net Position – Beginning	<u>1,470,451</u>	<u>1,655,377</u>	<u>1,763,922</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,655,377</u>	<u>\$ 1,763,922</u>	<u>\$ 1,959,822</u>
Net Pension Liability - Ending (a-b)	<u>\$ 446,070</u>	<u>\$ 554,118</u>	<u>\$ 585,177</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.8%	76.1%	77.0%
Estimated Covered Employee Payroll	\$ 748,295	\$ 785,493	\$ 755,429
Net Pension Liability as a Percentage of Covered Employee Payroll	59.6%	70.5%	77.5%

OXFORD BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (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, 2015 and 2016, calculated using the discount rate of 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability - 12/31/14	\$ 737,856	\$ 446,070	\$ 201,371
Net Pension Liability - 12/31/15	\$ 882,182	\$ 554,118	\$ 279,066
Net Pension Liability -12/31/16	\$ 940,609	\$ 585,177	\$ 286,690

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
2007	\$ 123,390	\$ 123,390	\$ -	\$ 620,864	19.9%
2008	105,050	105,149	(99)	590,994	17.8%
2009	106,563	106,563	-	606,526	17.6%
2010	97,473	97,473	-	544,457	17.9%
2011	93,770	108,986	(15,216)	587,610	18.5%
2012	111,050	111,050	-	650,528	17.1%
2013	116,506	116,506	-	719,932	16.2%
2014	140,512	140,512	-	748,295	18.8%
2015	143,734	143,734	-	785,493	18.3%
2016	148,145	148,145	-	755,429	19.6%
2017	150,154	150,154	-	*	*

* Due to the timing of this engagement, covered-employee payroll for 2017 was not provided in this schedule.

OXFORD BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2016	4.73%
2015	(1.46%)
2014	4.58%

OXFORD BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
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 (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	\$ 1,286,173	\$ 1,722,106	\$ 435,933	74.7%
01-01-15	1,698,480	2,089,247	390,767	81.3%
01-01-17	2,113,875	2,245,066	131,191	94.2%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period subject to a corridor between 80 and 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.

OXFORD BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(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.

OXFORD BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
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 (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	3 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 market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Cost-of-living adjustments	None assumed

OXFORD 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 Lorraine Phillips
Mayor

Ms. Susan Lombardi
Council President

Mr. Brian Hoover
Borough Manager

Ms. Arlene Harrison
Treasurer

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