

COMPLIANCE AUDIT

Parkside Borough Police Pension Plan Delaware 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
Parkside Borough
Delaware County
Parkside, PA 19015

We have conducted a compliance audit of the Parkside Borough Police Pension Plan for the period January 1, 2014 to December 31, 2017. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 audit 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 finding contained in our prior audit 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined 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.
- We determined whether the terms of the contractual agreement with the Pennsylvania State Association of Borough were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.
- We determined whether refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations by testing the refund disbursed to a plan member during the current audit period.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Parkside Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's

internal controls as they relate to the borough’s compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 Parkside 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 finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendations – Failure To Implement Act 44 Mandatory Distressed Provisions

This finding 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 audit report.

As previously noted, one of the objectives of our audit of the Parkside Borough Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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 funded status of the plan contained in the schedule of funding progress included in this report which indicates **the plan’s funded ratio is 69.4% as of January 1, 2017**, which is the most recent data available. **Based on this information, the borough is currently in Level II moderate distress status.** 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 Parkside Borough and, where appropriate, their responses have been included in the report.

August 1, 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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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 Parkside 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Parkside Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 1778, effective January 1, 2018, adopted pursuant to Act 600. Prior to January 1, 2018, the plan was locally controlled by the provisions of Resolution No. 1733, effective January 1, 2014, 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, 1993. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2017, the plan had 2 active members, no terminated members eligible for vested benefits in the future, and 1 retiree receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement Age 55 and 25 years of service

Early Retirement 20 years of service

Vesting 100% after 12 years of service

Retirement Benefit:

50% of total pay averaged over the last 36 months prior to retirement.

Survivor Benefit:

Before Retirement Eligibility Refund of member contributions plus interest.

After Retirement Eligibility A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

For the total and permanent disablement, a monthly benefit equal to 100% of salary for the duration of disability until what would have been the participant's normal retirement date, when the benefit is reduced to 50%.

PARKSIDE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Parkside Borough has complied with the prior audit recommendation concerning the following:

- Unauthorized Provision For A Killed In Service Benefit

Borough officials passed Resolution No. 1733 which eliminated the killed in service benefit.

Noncompliance With Prior Audit Recommendation

Parkside Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Failure To Implement Act 44 Mandatory Distressed Provisions

PARKSIDE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

**Finding - Noncompliance With Prior Audit Recommendation – Failure To Implement Act 44
Mandatory Distressed Provisions**

Condition: Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

As disclosed in the prior audit report, based on the plan’s funded ratios of 67.6%, 61.7%, and 64.3% as of January 1, 2009, 2011, and 2013, respectively, the former Public Employee Retirement Commission (PERC) issued notifications in 2010, 2012, and 2014 that the borough was in Level II moderate distress status. Based on the plan’s slightly improved funded ratio of 70.9% as of January 1, 2015, the borough’s distress level improved to Level I minimal distress status. However, based on the plan’s funded ratio of 69.4% as of January 1, 2017, the borough is again in Level II moderate distress status.

Included with the determination notices, the former PERC sent the municipality the Act 205 Recovery Program Election Form outlining the mandatory remedies that must be implemented and the voluntary remedies that the municipality could elect to implement. This form was required to be signed by the plan’s Chief Administrative Officer and returned to the former PERC, and now the Municipal Pension Reporting Program (MPRP).

Although the municipality submitted the election forms to the former PERC, as of the date of this audit report, the borough has not complied with the plan for administrative improvement.

Criteria: Act 205, amended by Act 44, at Section 605(a), states:

Recovery program level II.

- (a) Mandatory remedies. Any municipality to which level II of the recovery program applies shall utilize the following remedies:
 - (1) The aggregation of trust funds pursuant to section 607(b).
 - (2) The submission of a plan for administrative improvement pursuant to section 607(i).

PARKSIDE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that the mandatory distress remedies have been implemented.

Effect: The municipality is not in compliance with the Act 44 mandatory distress remedy provisions applicable to Level II which are designed to improve the funding status and administrative efficiency of its pension plans.

Recommendation: We again recommend that municipal officials contact the Municipal Pension Reporting Program (MPRP, formerly PERC) for guidance in the implementation of the mandatory distress remedies applicable to Level II pursuant to Act 44 of 2009.

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.

PARKSIDE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 6 through 8 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 31,022	\$ 25,919
Interest	64,977	62,820
Difference between expected and actual experience	-	(66,998)
Changes of assumptions	-	19,326
Benefit payments, including refunds of member contributions	(98,235)	(45,722)
Net Change in Total Pension Liability	(2,236)	(4,655)
Total Pension Liability - Beginning	884,450	882,214
Total Pension Liability - Ending (a)	<u>\$ 882,214</u>	<u>\$ 877,559</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 31,392	\$ 40,836
Contributions - state aid	23,236	15,683
Contributions - member	6,734	6,642
Net investment income	28,859	(2,939)
Benefit payments, including refunds of member contributions	(98,235)	(45,722)
Administrative expense	(4,971)	(8,608)
Net Change in Plan Fiduciary Net Position	(12,985)	5,892
Plan Fiduciary Net Position - Beginning	516,516	503,531
Plan Fiduciary Net Position - Ending (b)	<u>\$ 503,531</u>	<u>\$ 509,423</u>
Net Pension Liability - Ending (a-b)	<u>\$ 378,683</u>	<u>\$ 368,136</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	57.1%	58.1%
Estimated Covered Employee Payroll	\$ 237,724	\$ 165,746
Net Pension Liability as a Percentage of Covered Employee Payroll	159.3%	222.1%

PARKSIDE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 27,215	\$ 27,137
Interest	66,143	70,894
Difference between expected and actual experience	-	12,998
Changes of assumptions	-	2,787
Benefit payments, including refunds of member contributions	(45,722)	(45,722)
Net Change in Total Pension Liability	<u>47,636</u>	<u>68,094</u>
Total Pension Liability - Beginning	877,559	925,195
Total Pension Liability - Ending (a)	<u>\$ 925,195</u>	<u>\$ 993,289</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 40,260	\$ 40,127
Contributions - state aid	17,499	18,353
Contributions - member	6,609	7,228
Net investment income	22,147	69,338
Benefit payments, including refunds of member contributions	(45,722)	(45,722)
Administrative expense	(6,279)	(9,814)
Net Change in Plan Fiduciary Net Position	<u>34,514</u>	<u>79,510</u>
Plan Fiduciary Net Position - Beginning	509,423	543,937
Plan Fiduciary Net Position - Ending (b)	<u>\$ 543,937</u>	<u>\$ 623,447</u>
Net Pension Liability - Ending (a-b)	<u>\$ 381,258</u>	<u>\$ 369,842</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	58.8%	62.8%
Estimated Covered Employee Payroll	\$ 160,000	\$ 166,354
Net Pension Liability as a Percentage of Covered Employee Payroll	238.3%	222.3%

PARKSIDE 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, 2015, 2016, and 2017, calculated using the discount rate of 7.50%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability - 12/31/14	\$ 485,574	\$ 378,683	\$ 286,564
Net Pension Liability - 12/31/15	\$ 469,102	\$ 368,136	\$ 281,816
Net Pension Liability - 12/31/16	\$ 486,943	\$ 381,258	\$ 290,739
Net Pension Liability - 12/31/17	\$ 474,798	\$ 369,842	\$ 280,028

SCHEDULE OF INVESTMENT RETURNS

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

2017	12.75%
2016	4.35%
2015	(0.60%)
2014	6.10%

PARKSIDE 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	\$ 538,771	\$ 837,326	\$ 298,555	64.3%
01-01-15	591,909	834,542	242,633	70.9%
01-01-17	652,724	940,980	288,256	69.4%

Note: The market value 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 subject to a ceiling of 130% of market value. 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.

PARKSIDE 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.

PARKSIDE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 48,691	100.0%
2013	49,580	129.9%
2014	54,628	100.0%
2015	56,519	100.0%
2016	57,759	100.0%
2017	58,480	100.0%

PARKSIDE 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	Level dollar
Remaining amortization period	8 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	2.5% per annum

PARKSIDE 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 Thomas G. Deitman
Mayor

Ms. Shirley Purcival
Council President

Mr. Dominic Capobianco
Council Vice President

Mr. William Howell
Councilman

Mr. Douglas Bull
Councilman

Mr. Eric Long
Councilman

Mr. Robert Powers, Sr.
Councilman

Mr. Kevin Underwood
Councilman

Mr. Joseph P. Possenti, Jr.
Treasurer

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