

LIMITED PROCEDURES ENGAGEMENT

Pine Grove Borough Non-Uniformed Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

October 2018



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
Pine Grove Borough
Schuylkill County
Pine Grove, PA 17963

We conducted a Limited Procedures Engagement (LPE) of the Pine Grove 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 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Pine Grove 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 The
Non-Uniformed 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 Pine Grove Borough and, where appropriate, their responses have been included in this report.

October 16, 2018



EUGENE A. DEPASQUALE
Auditor General

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PINE GROVE BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Deposit The Full Amount Of State Aid Into The Non-Uniformed Pension Plan

Condition: The municipality did not deposit the full amount of its 2014 state aid allocation into the non-uniformed pension plan. The municipality received its 2014 state aid allocation in the amount of \$46,472 on September 29, 2014, but, as of the date of this report, only state aid totaling \$40,528 was deposited into the non-uniformed 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 fund or the alternate funding mechanism applicable to the respective pension plan.

Cause: The full amount of the 2014 state aid was not deposited into the non-uniformed pension plan because internal control procedures were not in effect to ensure the deposit of the full amount of state aid.

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: We recommend that the municipality deposit the borough’s remaining state aid allocation of \$5,944, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually into the 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 the non-uniformed pension plan within 30 days of receipt by the municipal treasurer.

Management’s Response: Municipal officials agreed with the finding without exception. Subsequent to the audit period, on October 15, 2018 the borough sent \$7,504 to PMRS for deposit into the non-uniformed plan for payment of the remaining 2014 state aid plus interest.

Auditor’s Conclusion: Based on the management response, it appears municipal officials complied with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

PINE GROVE BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 1 and 2 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	\$ 36,889	\$ 38,623	\$ 38,161
Interest	62,645	60,713	58,020
Difference between expected and actual experience	19,155	-	(58,718)
Changes of assumptions	-	1,472	26,044
Benefit payments, including refunds of member contributions	<u>(67,127)</u>	<u>(246,348)</u>	<u>(49,653)</u>
Net Change in Total Pension Liability	51,562	(145,540)	13,854
Total Pension Liability - Beginning	<u>1,135,220</u>	<u>1,186,782</u>	<u>1,041,242</u>
Total Pension Liability - Ending (a)	<u>\$ 1,186,782</u>	<u>\$ 1,041,242</u>	<u>\$ 1,055,096</u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 40,568	\$ 56,098	\$ 59,260
Contributions – PMRS assessment	-	380	360
PMRS investment income	54,275	47,933	43,700
Market value investment income	(48,327)	(85,299)	26,053
Benefit payments, including refunds of member contributions	(67,127)	(246,348)	(49,653)
PMRS administrative expense	(400)	(380)	(360)
Additional administrative expense	<u>(2,081)</u>	<u>(1,998)</u>	<u>(2,141)</u>
Net Change in Plan Fiduciary Net Position	(23,092)	(229,614)	77,219
Plan Fiduciary Net Position – Beginning	<u>1,002,255</u>	<u>979,163</u>	<u>749,549</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 979,163</u>	<u>\$ 749,549</u>	<u>\$ 826,768</u>
Net Pension Liability - Ending (a-b)	<u>\$ 207,619</u>	<u>\$ 291,693</u>	<u>\$ 228,328</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.51%	71.99%	78.36%
Estimated Covered Employee Payroll	\$ 331,828	\$ 342,664	\$ 343,782
Net Pension Liability as a Percentage of Covered Employee Payroll	62.57%	85.13%	66.42%

*2014 employer contributions includes actuarial surplus used for administrative expenses of \$40.

PINE GROVE 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, 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- 12/31/16	\$ 343,302	\$ 228,328	\$ 129,878

In addition, 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 4.5%	Current Discount Rate 5.5%	1% Increase 6.5%
Net Pension Liability - 12/31/14	\$ 326,648	\$ 207,619	\$ 104,810
Net Pension Liability - 12/31/15	\$ 415,531	\$ 291,693	\$ 184,923

PINE GROVE 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	\$ 940,696	\$ 1,105,990	\$ 165,294	85.1%
01-01-15	1,006,059	1,186,782	180,723	84.8%
01-01-17	888,558	1,055,096	166,538	84.2%

PINE GROVE 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.

PINE GROVE 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	\$ 40,860	100.1%
2013	37,186	100.0%
2014	40,528	100.0%
2015	56,478	100.0%
2016	59,620	100.2%
2017	63,633	100.0%

PINE GROVE 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	9 years
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

PINE GROVE BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Commonwealth of Pennsylvania

The Honorable Willard Shiffer
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