

LIMITED PROCEDURES ENGAGEMENT

Salisbury Borough Non-Uniformed Pension Plan Somerset 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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Salisbury Borough
Somerset County
Salisbury, PA 15558

We conducted a Limited Procedures Engagement (LPE) of the Salisbury 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 retirement benefits calculated for the plan member who retired during the engagement 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 benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient.

- 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 this report 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 Salisbury 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 Properly Utilize State Aid In Accordance With Act 205

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 Salisbury 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.

September 20, 2018



EUGENE A. DEPASQUALE
Auditor General

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SALISBURY BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Utilize State Aid In Accordance With Act 205

Condition: As previously disclosed to borough officials during the conduct of previous audit engagements of the borough’s non-uniformed pension plan, borough officials failed to utilize state aid for its intended purpose in accordance with state statutes. The borough originally purchased an annuity contract for a former police officer of the borough’s now defunct police pension plan during 1982 for the sole purpose of providing a retirement benefit for the former officer upon reaching retirement eligibility. However, the former police officer terminated employment prior to reaching eligibility requirements and subsequently died before becoming eligible to receive such a benefit. Moreover, borough officials failed to properly and timely surrender the annuity and deposit the proceeds, representing state aid, into an eligible pension plan. Therefore, funds were not used for their intended purpose under the statutes.

Criteria: Section 102 of Act 205 states, in part:

“Pension Fund.” The entity which is the repository for the assets amassed by a pension plan as reserves for the present and future periodic retirement payments and benefits of active and retired members of the pension plan.

Section 403(a) of Act 205 states, in part:

Any funds paid to a municipality pursuant to the act of May 12, 1943 (P.L. 259, No. 120), referred to as the Foreign Casualty Insurance Premium Tax Allocation Law, prior to the effective date of this act, and which have been either actually expended or, by action of the municipality, are irrevocably committed to be expended only in accordance with the Foreign Casualty Insurance Premium Tax Allocation Law, shall not be returned for redistribution pursuant to section 1.2 of the Foreign Casualty Insurance Premium Tax Allocation Law. [Emphasis added.]

Therefore, since the former police officer did not meet the conditions to receive benefits under the former plan and left service prior to qualifying for such benefits (and hence, neither would a surviving spouse) and would never be able to qualify for the benefit, to that end, the funds could never be “committed” under the act.

Cause: Although notified of the dormant annuity contract during prior audits, borough officials again failed to contact the insurance carrier to determine how to properly and timely surrender the annuity and obtain the corresponding proceeds applicable to the contract. According to borough officials, the insurance carrier surrendered the account to its Abandoned Properties Unit and ultimately, these proceeds were escheated to the Bureau of Unclaimed Property with the Pennsylvania Treasury Department.

SALISBURY BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The borough's failure to timely surrender the annuity and obtain the corresponding proceeds resulted in a potential loss of funds to pay other eligible pension plan costs. Furthermore, the cash surrender value of the annuity contract, which was owned by the former police pension plan, was not available to pay other authorized plan expenses or for investment purposes and any future interest income from this investment.

Recommendation: We recommend that the borough contact the Bureau of Unclaimed Property with the Pennsylvania Treasury Department and obtain the escheated funds from the borough's former pension plan's surrendered annuity contract and either deposit the proceeds, which represent state aid and accumulated earnings on state aid, into the borough's non-uniformed pension plan or return the funds to the Commonwealth for redistribution to other eligible municipal pension plans.

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

Auditor's Conclusion: The borough's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement.

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

The supplementary information contained on Pages 3 and 4 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	\$ 6,026	\$ 5,231	\$ 5,712
Interest	11,591	11,518	12,547
Difference between expected and actual experience	(17,696)	-	15,963
Changes of assumptions	-	6,077	6,506
Benefit payments, including refunds of member contributions	-	(929)	(8,364)
Net Change in Total Pension Liability	(79)	21,897	32,364
Total Pension Liability - Beginning	204,724	204,645	226,542
Total Pension Liability - Ending (a)	<u>\$ 204,645</u>	<u>\$ 226,542</u>	<u>\$ 258,906</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 5,319	\$ 5,322	\$ 5,223
Contributions – PMRS assessment	-	20	-
PMRS investment income	11,532	14,772	13,149
Market value investment income	(719)	(15,417)	6,696
Benefit payments, including refunds of member contributions	-	(929)	(8,364)
PMRS administrative expense	(60)	(80)	(60)
Additional administrative expenses	(442)	(616)	(644)
Net Change in Plan Fiduciary Net Position	15,630	3,072	16,000
Plan Fiduciary Net Position - Beginning	206,161	221,791	224,863
Plan Fiduciary Net Position - Ending (b)	<u>\$ 221,791</u>	<u>\$ 224,863</u>	<u>\$ 240,863</u>
Net Pension Liability - Ending (a-b)	<u>\$ (17,146)</u>	<u>\$ 1,679</u>	<u>\$ 18,043</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	108.38%	99.26%	93.03%
Estimated Covered Employee Payroll	\$ 97,014	\$ 83,642	\$ 90,474
Net Pension Liability as a Percentage of Covered Employee Payroll	(17.67%)	2.01%	19.94%

SALISBURY 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:

	<u>1% Decrease (4.5%)</u>	<u>Current Discount Rate (5.5%)</u>	<u>1% Increase (6.5%)</u>
Net Pension Liability - 12/31/14	\$ 2,042	\$ (17,146)	\$ (34,036)
Net Pension Liability - 12/31/15	\$ 22,399	\$ 1,679	\$ (16,466)

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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ 46,632	\$ 18,043	\$ (6,603)

SALISBURY 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	\$ 192,530	\$ 188,268	\$ (4,262)	102.3%
01-01-15	224,989	204,645	(20,344)	109.9%
01-01-17	258,745	258,906	161	99.9%

SALISBURY 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.

SALISBURY 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	\$ 6,207	100.0%
2013	5,092	100.0%
2014	5,190	102.5%
2015	5,322	100.0%
2016	5,223	100.4%
2017	3,501	105.1%

SALISBURY 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, closed
Remaining amortization period	11 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

SALISBURY BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Jane E. Swartzwelder
Mayor

Ms. Nancy A. Green
Secretary/Treasurer

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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