

LIMITED PROCEDURES ENGAGEMENT

Sharpsburg Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

April 2020



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
Sharpsburg Borough
Allegheny County
Sharpsburg, PA 15215

We conducted a Limited Procedures Engagement (LPE) of the Sharpsburg Borough Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2018 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 LPE 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 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 pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- Whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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 Sharpsburg Borough Non-Uniformed Pension Plan was not being administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Sharpsburg 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.

April 3, 2020



EUGENE A. DEPASQUALE
Auditor General

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SHARPSBURG BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior LPE Report Recommendation

Sharpsburg Borough has complied with the prior LPE report recommendation concerning the following:

Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current audit period, the borough reimbursed \$4,540 to the Commonwealth for the overpayment of state aid received in 2016 and complied with the instructions accompanying Certification Form AG 385 in accurately reporting the required data.

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

The supplementary information contained on Pages 2 through 5 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, 2016, 2017 AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 37,210	\$ 37,610	\$ 38,801	\$ 40,247	\$ 41,244
Interest	56,440	68,550	77,484	77,858	81,503
Change of benefit terms	-	-	-	-	11,325
Difference between expected and actual experience	97,577	(23,784)	(27,516)	-	(20,498)
Changes of assumptions	-	(269)	32,372	-	-
Transfers	-	212,068	-	-	-
Benefit payments, including refunds of member contributions	(48,872)	(55,741)	(48,363)	(48,363)	(51,025)
Net Change in Total Pension Liability	<u>142,355</u>	<u>238,434</u>	<u>72,778</u>	<u>69,742</u>	<u>62,549</u>
Total Pension Liability - Beginning	<u>1,013,072</u>	<u>1,155,427</u>	<u>1,393,861</u>	<u>1,466,639</u>	<u>1,536,381</u>
Total Pension Liability - Ending (a)	<u><u>\$ 1,155,427</u></u>	<u><u>\$ 1,393,861</u></u>	<u><u>\$ 1,466,639</u></u>	<u><u>\$ 1,536,381</u></u>	<u><u>\$ 1,598,930</u></u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 509	\$ -	\$ -	\$ -	\$ -
Contributions - PMRS assessment	-	-	-	-	20
Contributions - member	15,349	14,043	16,219	16,607	17,019
PMRS investment income	75,868	82,838	93,251	92,786	95,986
Market value investment income	3,154	(85,556)	49,641	204,153	(189,251)
Transfers	-	212,068	-	-	-
Benefit payments, including refunds of member contributions	(48,872)	(55,741)	(48,363)	(48,363)	(51,025)
PMRS Administrative expense	(300)	(300)	(280)	(300)	(300)
Additional Administrative expense	(2,910)	(3,453)	(4,568)	(4,267)	(4,283)
Net Change in Plan Fiduciary Net Position	<u>42,798</u>	<u>163,889</u>	<u>105,900</u>	<u>260,616</u>	<u>(131,834)</u>
Plan Fiduciary Net Position - Beginning	<u>1,382,655</u>	<u>1,425,453</u>	<u>1,589,352</u>	<u>1,695,252</u>	<u>1,955,868</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,425,453</u></u>	<u><u>\$ 1,589,352</u></u>	<u><u>\$ 1,695,252</u></u>	<u><u>\$ 1,955,868</u></u>	<u><u>\$ 1,824,034</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ (270,026)</u></u>	<u><u>\$ (195,491)</u></u>	<u><u>\$ (228,613)</u></u>	<u><u>\$ (419,487)</u></u>	<u><u>\$ (225,104)</u></u>

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

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS – (CONTINUED)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	123.37%	114.03%	115.59%	127.30%	114.08%
Estimated Covered Employee Payroll	\$ 308,793	\$ 317,065	\$ 324,378	\$ 332,149	\$ 340,380
Net Pension Liability as a Percentage of Covered Employee Payroll	(87.45)%	(61.66)%	(70.48)%	(126.29)%	(66.13)%

SHARPSBURG 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 5.50%, 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 (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability - 12/31/14	\$ (142,887)	\$ (270,026)	\$ (379,354)
Net Pension Liability - 12/31/15	\$ (69,952)	\$ (195,491)	\$ (303,724)

In addition, the following presents the net pension liability of the borough as of December 31, 2016, 2017 and 2018, 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	\$ (107,588)	\$ (228,613)	\$ (335,147)
Net Pension Liability - 12/31/17	\$ (292,707)	\$ (419,487)	\$ (531,087)
Net Pension Liability - 12/31/18	\$ (83,836)	\$ (225,104)	\$ (348,442)

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

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
2014	\$ -	\$ 509	\$ (509)	\$ 308,793	0.16%
2015	-	-	0	317,065	0.00%
2016	-	-	0	324,378	0.00%
2017	-	-	0	332,149	0.00%
2018	-	20	(20)	340,380	0.01%

SHARPSBURG 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	\$ 1,354,435	\$ 971,633	\$ (382,802)	139.4%
01-01-15	1,455,419	1,155,427	(299,992)	126.0%
01-01-17	1,804,362	1,466,639	(337,723)	123.0%

SHARPSBURG 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.

SHARPSBURG BOROUGH NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (UNAUDITED)

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
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.

SHARPSBURG 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 Matthew Rudzki
Mayor

Ms. Brittany Reno
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Mr. William Rossey
Borough Manager

Ms. Roxane Magnelli
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