

# LIMITED PROCEDURES ENGAGEMENT

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## Southmont Borough Non-Uniformed Pension Plan Cambria County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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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  
Southmont Borough  
Cambria County  
Johnstown, PA 15905

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

October 1, 2018



EUGENE A. DEPASQUALE  
Auditor General

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SOUTHMONT BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan**

Condition: The municipality did not deposit the full amount of its 2014, 2015, 2016 and 2017 state aid allocations into the pension plan. The municipality received its 2014, 2015, 2016 and 2017 state aid allocations in the amounts of \$11,271, \$15,219, \$16,678, and \$17,509, respectively, on September 25, 2014, September 30, 2015, September 27, 2016 and September 27, 2017 respectively, totaling \$60,677. However, as of the date of this report, only state aid totaling \$33,563 was deposited into the borough’s pension plan. The remaining \$27,114 remains in the borough’s general fund.

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 pension plan.

Cause: The full amount of the 2014, 2015, 2016 and 2017 state aid was not deposited into the pension plan because plan officials were unaware of applicable Act 205 provisions and failed to perform a reconciliation between the amount of annual pension costs paid during the year with the amount of annual state aid received each year towards the borough’s total annual pension costs.

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. Furthermore, the borough’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality deposit the borough’s remaining state aid allocation of \$27,114, plus interest earned during the period beyond the 30 day grace period allowed by Act 205 , compounded annually into the 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 appropriately deposited into the non-uniformed pension plan by the municipal treasurer in accordance with Act 205.

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

Auditor’s Conclusion: Due to the potential withhold of state aid, the borough’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

SOUTHMONT BOROUGH NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by the finding contained in this report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

SOUTHMONT 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	\$ 14,824	\$ 15,175	\$ 15,205
Interest	32,712	33,930	35,472
Difference between expected and actual experience	(6,658)	-	4,960
Changes of assumptions	-	(2,111)	13,661
Benefit payments, including refunds of member contributions	(19,119)	(18,957)	(18,957)
Net Change in Total Pension Liability	<u>21,759</u>	<u>28,037</u>	<u>50,341</u>
Total Pension Liability - Beginning	589,987	611,746	639,783
Total Pension Liability - Ending (a)	<u>\$ 611,746</u>	<u>\$ 639,783</u>	<u>\$ 690,124</u>
 Plan Fiduciary Net Position			
Contributions – employer*	\$ 5,162	\$ 8,781	\$ 9,813
Contributions – PMRS assessment	-	120	120
Contributions - employee	4,608	5,710	5,981
PMRS investment income	31,633	33,212	34,844
Market value investment income	(1,247)	(35,208)	18,583
Benefit payments, including refunds of member contributions	(19,119)	(18,957)	(18,957)
PMRS administrative expense	(120)	(120)	(120)
Additional administrative expense	(1,213)	(1,385)	(1,707)
Net Change in Plan Fiduciary Net Position	<u>19,704</u>	<u>(7,847)</u>	<u>48,557</u>
Plan Fiduciary Net Position - Beginning	576,955	596,659	588,812
Plan Fiduciary Net Position - Ending (b)	<u>\$ 596,659</u>	<u>\$ 588,812</u>	<u>\$ 637,369</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 15,087</u>	<u>\$ 50,971</u>	<u>\$ 52,755</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.53%	92.03%	92.36%
 Estimated Covered Employee Payroll	\$ 144,054	\$ 147,199	\$ 153,934
 Net Pension Liability as a Percentage of Covered Employee Payroll	10.47%	34.63%	34.27%

\* Employer contributions for 2014 include \$182 of administrative expenses paid from actuarial surplus.

SOUTHMONT 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:

	1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability - 12/31/14	\$ 69,620	\$ 15,087	\$ (30,257)
Net Pension Liability - 12/31/15	\$ 105,136	\$ 50,971	\$ 6,230

In addition, the following presents the net pension liability of the township as of December 31, 2016, calculated using the discount rate of 5.25%, as well as what the township'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	\$ 114,176	\$ 52,755	\$ 1,598



SOUTHMONT 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	\$ 547,538	\$ 551,462	\$ 3,924	99.3%
01-01-15	610,788	611,746	958	99.8%
01-01-17	683,222	690,124	6,902	99.0%

SOUTHMONT 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.

SOUTHMONT 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	\$ 7,079	112.9%
2013	6,459	121.2%
2014	4,980	100.0%
2015	8,900	100.0%
2016	9,933	100.0%
2017	9,749	100.0%

SOUTHMONT 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	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

SOUTHMONT 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 Mark Yonko**  
Mayor

**Mr. Richard Rogers**  
Council President

**Mr. Richard Wargo**  
Borough Manager

**Ms. Charity Rosenberry, CPA**

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