

LIMITED PROCEDURES ENGAGEMENT

Central City Borough Non-Uniformed Pension Plan Somerset 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
Central City Borough
Somerset County
Central City, PA 15926

We conducted a Limited Procedures Engagement (LPE) of the Central City 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 plan members 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 individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

- 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 Central City 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 Central City 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.

August 9, 2018


EUGENE A. DEPASQUALE
Auditor General

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CENTRAL CITY 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 2015 state aid allocation into the pension plan in accordance with Act 205. The municipality received its 2015 state aid allocation in the amount of \$4,308 on September 28, 2015, but, as of the date of this report, only state aid amounting to \$3,585 was deposited into an eligible pension plan. We noted that the borough’s police pension plan had no costs for 2015 (i.e. the police plan’s assets exceeded its future benefit obligations); therefore, the remaining outstanding state aid should have been deposited into its non-uniformed pension plan, accordingly.

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 funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: The full amount of the 2015 state aid was not deposited into the pension plan because internal control procedures were not adequate to ensure that the full amount of the state aid allocation received by the borough was appropriately deposited in accordance with Act 205.

Effect: When state aid is not deposited into an eligible 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 municipal officials deposit the borough’s remaining state aid allocation amounting to \$723, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, into its 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 pension plan within 30 days of receipt by the municipal treasurer.

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 of the pension plan.

CENTRAL CITY BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on pages 2 and 3 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	\$ 6,168	\$ 4,336	\$ 4,033
Interest	17,232	17,882	18,220
Difference between expected and actual experience	(4,352)	-	14,049
Changes of assumptions	-	(2,159)	8,563
Benefit payments, including refunds of member contributions	(100)	(10,845)	(16,460)
Net Change in Total Pension Liability	<u>18,948</u>	<u>9,214</u>	<u>28,405</u>
Total Pension Liability - Beginning	307,191	326,139	335,353
Total Pension Liability - Ending (a)	<u>\$ 326,139</u>	<u>\$ 335,353</u>	<u>\$ 363,758</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 4,184	\$ 3,585	\$ 3,112
PMRS investment income	17,402	16,561	18,468
Market value investment income	(1,006)	(21,946)	11,057
Benefit payments, including refunds of member contributions	(100)	(10,845)	(16,460)
PMRS Administrative expense	(100)	(100)	(100)
Additional administrative expense	(667)	(690)	(905)
Net Change in Plan Fiduciary Net Position	<u>19,713</u>	<u>(13,435)</u>	<u>15,172</u>
Plan Fiduciary Net Position - Beginning	312,518	332,231	318,796
Plan Fiduciary Net Position - Ending (b)	<u>\$ 332,231</u>	<u>\$ 318,796</u>	<u>\$ 333,968</u>
Net Pension Liability - Ending (a-b)	<u>\$ (6,092)</u>	<u>\$ 16,557</u>	<u>\$ 29,790</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.87%	95.06%	91.81%
Estimated Covered Employee Payroll	\$ 73,464	\$ 51,856	\$ 50,882
Net Pension Liability as a Percentage of Covered Employee Payroll	(8.29%)	31.93%	58.55%

CENTRAL CITY 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	\$ 28,988	\$ (6,092)	\$ (36,818)
Net Pension Liability - 12/31/15	\$ 52,798	\$ 16,557	\$ (15,200)

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	\$ 67,334	\$ 29,790	\$ (2,710)

CENTRAL CITY 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	\$ 296,048	\$ 285,257	\$ (10,791)	103.8%
01-01-15	337,022	326,139	(10,883)	103.3%
01-01-17	360,787	363,758	2,971	99.2%

CENTRAL CITY 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.

CENTRAL CITY 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	\$ 11,263	100.0%
2013	3,377	101.9%
2014	3,959	101.5%
2015	3,585	100.0%
2016	3,112	100.0%
2017	3,175	102.8%

CENTRAL CITY 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	5 years
Asset valuation method	Fair value
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 30 - 5.44 %; age 40 – 4.26%; age 50 – 3.72%; age 60 - 3.28%)
Cost-of-living adjustments	2.8% per year, subject to plan limitations

CENTRAL CITY 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 Woodrow W. Clapper Jr.
Mayor

Mr. Robert Sanzo
Council President

Ms. Amy M. Yock
Secretary

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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