

LIMITED PROCEDURES ENGAGEMENT

Saint Clair Borough Police Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

January 2019



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
Saint Clair Borough
Schuylkill County
Saint Clair, PA 17970

We conducted a Limited Procedures Engagement (LPE) of the Saint Clair Borough Police 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 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to 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 Saint Clair Borough Police 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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 Saint Clair 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.

December 28, 2018



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Finding and Recommendation:	
Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid	1
Supplementary Information	3
Report Distribution List	10

SAINT CLAIR BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough understated payroll by \$25,998 and \$42,666 on the Certification Form AG 385 filed in 2015 and 2016, respectively. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Further, Section 1c of the 2016 AG 385 Instructions which accompanied the AG 385 form states:

TOTAL PAYROLL FOR POLICE PENSION PLAN

- A. To provide the total payroll for all police officers participating in the plan, use W-2 tax form earnings pertaining to FULL-TIME POSITION AS A POLICE OFFICER for calendar year 2015.

- B. Include any Heart and Lung benefits as part of employee W-2 wages.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans.

The borough’s 2015 state aid allocation was based on unit value; therefore, the borough received the appropriate state aid allocation. However, since the borough’s 2016 state aid allocation was based on pension costs, the borough received an underpayment of state aid during 2016 as identified below:

<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
13.98990%	\$ 42,666	\$ 5,969

SAINT CLAIR BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Although the borough will be reimbursed for the underpayment of state aid due to the borough's certification error, the full amount of the 2016 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

SAINT CLAIR BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 6 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 85,096	\$ 68,234
Interest	159,079	152,127
Difference between expected and actual experience	-	83,055
Benefit payments, including refunds of member contributions	(56,398)	(70,632)
Net Change in Total Pension Liability	<u>187,777</u>	<u>232,784</u>
Total Pension Liability - Beginning	2,136,801	2,324,578
Total Pension Liability - Ending (a)	<u><u>\$ 2,324,578</u></u>	<u><u>\$ 2,557,362</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 86,882	\$ 86,430
Contributions - member	29,063	25,596
Net investment income	126,803	(15,542)
Benefit payments, including refunds of member contributions	(56,398)	(70,632)
Administrative expense	(18,800)	(19,761)
Net Change in Plan Fiduciary Net Position	<u>167,550</u>	<u>6,091</u>
Plan Fiduciary Net Position - Beginning	2,073,939	2,241,489
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 2,241,489</u></u>	<u><u>\$ 2,247,580</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 83,089</u></u>	<u><u>\$ 309,782</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.4%	87.9%
Estimated Covered Employee Payroll	\$ 385,721	\$ 310,065
Net Pension Liability as a Percentage of Covered Employee Payroll	21.5%	99.9%

SAINT CLAIR BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 72,328	\$ 62,496
Interest	185,109	191,603
Difference between expected and actual experience	-	(262)
Changes of assumptions	-	189,547
Benefit payments, including refunds of member contributions	(155,633)	(147,173)
Net Change in Total Pension Liability	<u>101,804</u>	<u>296,211</u>
Total Pension Liability - Beginning	<u>2,557,362</u>	<u>2,659,166</u>
Total Pension Liability - Ending (a)	<u>\$ 2,659,166</u>	<u>\$ 2,955,377</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 43,747	\$ 22,964
Contributions - member	28,209	24,240
Net investment income	102,465	289,262
Benefit payments, including refunds of member contributions	(155,633)	(147,173)
Administrative expense	(18,687)	(16,614)
Net Change in Plan Fiduciary Net Position	<u>101</u>	<u>172,679</u>
Plan Fiduciary Net Position - Beginning	<u>2,247,580</u>	<u>2,247,681</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,247,681</u>	<u>\$ 2,420,360</u>
Net Pension Liability - Ending (a-b)	<u>\$ 411,485</u>	<u>\$ 535,017</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.5%	81.9%
Estimated Covered Employee Payroll	\$ 269,650	\$ 301,991
Net Pension Liability as a Percentage of Covered Employee Payroll	152.6%	177.2%

SAINT CLAIR BOROUGH POLICE 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, 2015 and 2016, calculated using the discount rate of 7.25%, 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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability - 12/31/14	\$ 384,346	\$ 83,089	\$ (168,842)
Net Pension Liability - 12/31/15	\$ 613,029	\$ 309,782	\$ 55,610
Net Pension Liability - 12/31/16	\$ 727,699	\$ 411,485	\$ 146,409

In addition, the following presents the net pension liability of the borough as of December 31, 2017, calculated using the discount rate of 6.75%, 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 (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability- 12/31/17	\$ 902,737	\$ 535,017	\$ 229,812

SAINT CLAIR BOROUGH POLICE 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
2007	\$ 43,437	\$ 44,187	\$ (750)	\$ -	-
2008	50,523	50,523	-	366,233	13.8%
2009	52,168	54,845	(2,677)	-	-
2010	58,087	59,538	(1,451)	391,759	15.2%
2011	98,823	99,548	(725)	-	-
2012	89,563	95,327	(5,764)	384,707	24.8%
2013	86,017	86,017	-	-	-
2014	86,882	86,882	-	385,721	22.5%
2015	86,430	86,430	-	310,065	27.9%
2016	16,489	43,747	(27,258)	269,650	16.2%
2017	22,964	22,964	-	301,991	7.6%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2017	13.24%
2016	4.64%
2015	-0.70%
2014	6.21%

SAINT CLAIR BOROUGH POLICE 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	\$ 1,757,397	\$ 1,966,535	\$ 209,138	89.4%
01-01-15	2,241,489	2,064,763	(176,726)	108.6%
01-01-17	2,247,681	2,848,451	600,770	78.9%

The Actuarial Accrued Liability as of 01-01-17 reflects an increase due to the fact that there was an experience loss amounting to \$617,006 since the January 1, 2015 AVR. The primary sources of the loss were attributed to the disability retirement of a participant, changes in actuarial assumptions and a change in the investment return rate on the actuarial value of assets which was less than the previously assumed 7.25% annual rate.

SAINT CLAIR BOROUGH POLICE 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.

SAINT CLAIR BOROUGH POLICE 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	Fair value
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	5.25%

SAINT CLAIR BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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