

LIMITED PROCEDURES ENGAGEMENT

Apollo Borough Police Pension Plan Armstrong County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

February 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
Apollo Borough
Armstrong County
Apollo, PA 15613

We conducted a Limited Procedures Engagement (LPE) of the Apollo Borough Police Pension Plan for the period January 1, 2013 to December 31, 2016 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 audit 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether the January 1, 2011, January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014 and 2016, respectively, in accordance with Act 205 and whether selected information provided on these reports are 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 Apollo 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 findings further discussed later in this report:

Finding – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The 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 Apollo 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.

January 30, 2018



EUGENE A. DEPASQUALE
Auditor General

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APOLLO BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Apollo Borough has complied with the prior audit recommendation concerning the following:

- Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

During the current engagement period, the borough reimbursed \$1,184 to the Commonwealth for the state aid received in 2010 and 2012 which was not used to fund pension costs.

APOLLO BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The borough received state aid in excess of the police pension plan’s pension costs in the years 2014, 2015 and 2016, and also made municipal contributions in excess of those required to fund the plan in the years 2013 and 2015, as illustrated below:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actual municipal pension costs	\$ 20	\$ 20	\$ 1,729	\$ 1,808
Employee forfeitures available	<u>(13,432)</u>	<u>(13,917)</u>	<u>(14,683)</u>	<u>(15,486)</u>
Adjusted actual municipal pension costs	\$ -	\$ -	\$ -	\$ -
State aid allocated	<u>-</u>	<u>(20)</u>	<u>(843)</u>	<u>(1,808)</u>
Excess state aid received	<u>\$ -</u>	<u>\$ 20</u>	<u>\$ 843</u>	<u>\$ 1,808</u>
Actual municipal contributions made	41	\$ -	\$ 758	\$ -
Municipal contributions required to fund plan	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess municipal contributions	<u>\$ 41</u>	<u>\$ -</u>	<u>\$ 758</u>	<u>\$ -</u>

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

In addition, Section 9.1(a) of the PMRS plan agreement states, in part:

For a Member hired after January 1, 2011, the Municipality shall contribute to each Member’s Account five percent (5%) of each Member’s Compensation....

Furthermore, Section 11.3(a) of the plan agreement states, in part:

Forfeitures under this clause or under any other provision of law may not be applied to increase the benefits that any member would otherwise receive under act.

APOLLO BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to annually reconcile the amount of state aid allocated to the pension plan along with any available forfeitures maintained in the plan’s municipal reserve account with the plan’s actual defined contribution pension costs prior to allocating any additional state aid received and/or depositing any municipal contributions into the pension plan.

Effect: As a result of the borough failing to utilize available plan forfeitures and making contributions to the police pension plan in excess of contributions required to fund the pension plan, an unallocated reserve fund was generated during 2013 and increased to a reserve fund in the amount of \$16,331 at December 31, 2016, as illustrated by the following:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Unallocated reserve fund at January 1	\$ (21)	\$ 13,917	\$ 14,682	\$ 15,486
Forfeitures	13,411	-	-	-
Excess municipal contributions	41	-	758	-
Interest earned on reserve funds	484	785	803	845
Transfer to members accounts	<u>(-)</u>	<u>(-)</u>	<u>(757)</u>	<u>(-)</u>
Unallocated reserve fund at December 31	<u>\$ 13,917</u>	<u>\$ 14,682</u>	<u>\$ 15,486</u>	<u>\$ 16,331</u>

The unallocated reserve fund maintained by the police pension plan resulted because no reduction of municipal contributions occurred to reconcile the amount of state aid with the plan’s defined contribution pension costs. It is appropriate to use state aid to reimburse a municipality for contributions made to the pension plan to fund the pension costs in that same fiscal year, as long as annual pension costs for that pension plan are equal to or greater than the state aid allocated to that pension plan.

It is the opinion of this department that the borough’s failure to withdraw excess municipal contributions made in prior years does not preclude the borough from withdrawing the municipal contributions maintained in the unallocated reserve fund at this time.

APOLLO BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

It is this department's opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayments of state aid in the years 2014, 2015 and 2016, in the total amount of \$2,671, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$2,671 of excess state aid received in the years 2014, 2015 and 2016 to the Commonwealth from the police pension plan. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

We also recommend that the township liquidate the remaining unallocated municipal reserve fund maintained by the pension plan by applying future contributions required to fund the plan before any additional state aid and/or municipal contributions are deposited to the PMRS account.

Furthermore, we recommend that plan officials establish adequate internal control procedures to reconcile the amount of state aid allocated to the township, any available employee forfeitures and municipal contributions made to the pension plan, with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth. In addition, if employee forfeitures become available, plan officials should consult with PMRS to determine if additional municipal contributions need to be made to meet the plan's funding requirements.

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 audit report and through our next audit of the plan.

APOLLO BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 5 and 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	\$ -	\$ 1,581
Interest		33
Net Change in Total Pension Liability	-	1,614
Total Pension Liability - Beginning	-	-
Total Pension Liability - Ending (a)	<u>\$ -</u>	<u>\$ 1,614</u>
 Plan Fiduciary Net Position		
Contributions – employer*	\$ 20	\$ 1,581
Contributions – PMRS assessment	-	20
PMRS investment income	765	836
Market value investment income	(42)	(986)
PMRS administrative expense	(20)	(20)
Additional administrative expense	(29)	(35)
Net Change in Plan Fiduciary Net Position	694	1,396
Plan Fiduciary Net Position - Beginning	13,780	14,474
Plan Fiduciary Net Position - Ending (b)	<u>\$ 14,474</u>	<u>\$ 15,870</u>
 Net Pension Liability - Ending (a-b)	<u>\$ (14,474)</u>	<u>\$ (14,256)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	N/A	983.27%
 Estimated Covered Employee Payroll	\$ -	\$ 31,620
 Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	(45.09%)

* 2015 Employer contribution does not include \$20 of administrative expense.

APOLLO 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 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%)
	<hr/>	<hr/>	<hr/>
Net Pension Liability - 12/31/14	\$ (14,474)	\$ (14,474)	\$ (14,474)
Net Pension Liability - 12/31/15	\$ (13,934)	\$ (14,256)	\$ (14,579)

APOLLO BOROUGH POLICE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 4,856	None
2012	3,410	None
2013	None	\$ 41
2014	20	None
2015	843	758
2016	1,808	None

APOLLO BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Jeffrey Held
Mayor

Mr. John Kautz
Council President

Ms. Cynthia McDemott
Borough Manager

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.