

LIMITED PROCEDURES ENGAGEMENT

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

July 2017



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
Morrisville Borough
Bucks County
Morrisville, PA 19007

We conducted a Limited Procedures Engagement (LPE) of the Morrisville 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 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, 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 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 Morrisville 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 – Failure To Timely Pay The Minimum Municipal Obligation Of 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 Morrisville Borough and, where appropriate, their responses have been included in this report.

July 24, 2017



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Finding and Recommendation:	
Finding – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan.....	1
Supplementary Information	3
Report Distribution List	9

MORRISVILLE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan

Condition: The municipality did not timely pay the 2015 minimum municipal obligation (MMO) that was due to the police pension plan by December 31, 2015, as required by Act 205. The municipality deposited \$192,591 into the plan on February 1, 2016 to pay the 2015 MMO; however, the municipality failed to pay the interest due on the late deposit for the 2015 MMO in accordance with Act 205 requirements.

Criteria: Section 302(e) of Act 205 states:

Interest penalty on omitted municipal contributions. Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Municipal officials failed to establish adequate procedures to ensure that the MMO due was paid timely and that the interest due on the late payment was determined and paid in accordance with Act 205 requirements.

Effect: The plan is not being adequately compensated for the municipality's failure to pay the MMO timely in accordance with Act 205 requirements.

Recommendation: We recommend that the municipality pay the interest due to the police pension plan for the untimely payment of the 2015 MMO in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next engagement of the plan.

Furthermore, we recommend that plan officials establish and implement adequate internal control procedures to ensure that future MMOs are paid timely in accordance with Act 205 requirements.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

MORRISVILLE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management’s Response: On January 27, 2016, we received a letter from the Pennsylvania Municipal Retirement System alerting us to the fact that they had not received the 2015 MMO pension obligation for the Police pension. The letter from PMRS was dated January 20, 2016, and received in our mail on January 27, 2016. Immediately upon learning that the payment had not been received by PMRS, we researched things on our end. We came to the realization that in oversight the check had not been cut and sent to PMRS. As upsetting as it was to discover this, we immediately contacted PMRS, cut a check for the funds and sent it out via Federal Express for them to receive the next day, January 28, 2016. The error was an innocent one, albeit an error still, that we were very upset about and truly sorry for.

We are a small municipality that had been in and were continuing to go through a tremendous change over as far as staff. Everyone working on the administrative staff of the Borough at the time was either new to the Borough or new to their position. The Office Administrator had retired after 52-½ years at the helm. Unfortunately, the training that took place in the transition period, to put it mildly, was lacking. Because we are a small Borough the luxury of proper training was not ours, for the most part all of being “newbies” we were learning as we moved forward.

To the best of my knowledge the Borough of Morrisville has never before paid the MMO obligation late and we regret that it happened in regard to the 2015 MMO pension obligation for the Police pension plan. We realize the importance of things like this and take it very seriously. All of our staff genuinely cares about the Borough, the residents and the job we do. Most of our staff were born and raised in the Borough of Morrisville, along with choosing to have and raise our own families here. This oversight is one we are genuinely sorry for and ask that we be forgiven for it; it is something we have and will strive to ensure never happens again. We ask that any we not be expected to pay any interest on the money in light of it being an innocent oversight by a staff working within a huge learning curve, that it was submitted immediately upon our being notified of the error, our deep and genuine regret and working to ensure it never happens again along with the fact that our Borough is a small municipality.

Auditor’s Conclusion: The Department appreciates the difficulties that can arise from a turnover of municipal officials. In addition, the Borough’s efforts to pay the outstanding 2015 MMO immediately upon notification from PMRS is to be commended. However, the requirement that interest be paid due to delinquent MMO payments is statutory. Act 205 does not provide for any exceptions to this requirement, and does not grant the Department the authority to waive the required interest payment due. Therefore, based on the Criteria previously cited, the finding and recommendation remain as stated. Compliance will be evaluated during our next engagement.

MORRISVILLE BOROUGH POLICE 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 215,801	\$ 195,823
Interest	480,831	497,037
Difference between expected and actual experience	(21,614)	-
Changes of assumptions	-	(206,108)
Benefit payments, including refunds of member contributions	(347,566)	(373,533)
Net Change in Total Pension Liability	<u>327,452</u>	<u>113,219</u>
Total Pension Liability – Beginning	8,698,035	9,025,487
Total Pension Liability - Ending (a)	<u><u>\$ 9,025,487</u></u>	<u><u>\$ 9,138,706</u></u>
Plan Fiduciary Net Position		
Contributions – employer *	\$ 122,652	\$ 192,611
Contribution – member	44,345	41,824
Net investment income	335,330	8,899
Benefit payments, including refunds of member contributions	(347,566)	(373,533)
Administrative expense	(18,782)	(20,664)
Net Change in Plan Fiduciary Net Position	<u>135,979</u>	<u>(150,863)</u>
Plan Fiduciary Net Position – Beginning	8,733,791	8,869,770
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 8,869,770</u></u>	<u><u>\$ 8,718,907</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 155,717</u></u>	<u><u>\$ 419,799</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.27%	95.41%
Estimated Covered Employee Payroll	\$ 998,314	\$ 836,687
Net Pension Liability as a Percentage of Covered Employee Payroll	15.60%	50.17%

* 2014 employer contributions include \$420 of administrative expenses and \$2,398 of allocated insurance premiums.

MORRISVILLE 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%)
Net Pension Liability – 12/31/14	\$ 1,243,927	\$ 155,717	\$ (751,352)
Net Pension Liability – 12/31/15	\$ 1,499,125	\$ 419,799	\$ (477,784)

MORRISVILLE 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, 2011, 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)
01-01-11	\$ 7,976,537	\$ 7,362,829	\$ (613,708)	108.3%
01-01-13	8,354,717	8,198,758	(155,959)	101.9%
01-01-15	9,121,247	9,025,487	(95,760)	101.1%

MORRISVILLE 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.

MORRISVILLE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2011	\$ 77,319	100.0%
2012	84,745	111.3%
2013	76,655	100.0%
2014	92,553	129.5%
2015	192,591	100.0%
2016	197,560	100.0%

MORRISVILLE 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, 2015
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	5.5%, net of expenses
Projected salary increases *	Age-related scale for merit/ seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%)
Cost-of-living adjustments	3.0%, where applicable

* Includes inflation at 3.0%

MORRISVILLE 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 David Rivella
Mayor

Mr. Fred Kerner
Council President

Mr. Robert Sooby
Borough Manager

Ms. Virginia Cyphers
Borough Secretary

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

Ms. Kristine M. Cline
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.