

LIMITED PROCEDURES ENGAGEMENT

Seven Fields Borough Non-Uniformed Pension Plan Butler County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

November 2016



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
Seven Fields Borough
Butler County
Seven Fields, PA 16046

We conducted a Limited Procedures Engagement (LPE) of the Seven Fields Borough Non-Uniformed Pension Plan for the period January 1, 2013 to December 31, 2015 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.
- 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 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 Seven Fields 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 subsequent to this letter:

Finding – Incorrect Pension Benefit Calculations

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 letter were discussed with officials of Seven Fields Borough and, where appropriate, their responses have been included in this letter. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

October 26, 2016



EUGENE A. DEPASQUALE
Auditor General

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ABBREVIATION

PMRS – Pennsylvania Municipal Retirement System

SEVEN FIELDS BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Seven Fields Borough has complied with the prior audit recommendation concerning the following:

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current engagement period, the borough reimbursed \$3,755 to the Commonwealth for the overpayment of state aid received in 2010.

SEVEN FIELDS BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Pension Benefit Calculations

Condition: Two members of the pension plan who retired in 2012 and 2013, had their pension benefits incorrectly determined because municipal officials failed to use the accurate amounts of their W-2 wages in calculating the members' final monthly average salaries.

Criteria: The plan agreement adopted by Ordinance No. 79, at Section 6.1(a), states:

Normal Retirement Benefit – For Members hired prior to January 1, 2011, the annual Basic Benefit shall be calculated by multiplying the Member's Final Salary by all years of Credited Service and multiplied by the benefit accrual rate of two and two-tenths percent (2.20%).

Furthermore Ordinance No. 79, at Section 2.1, states, in part:

Final Salary means the average annual Compensation earned and paid during the member's final three (3) consecutive years of employment. . . .

Effect: Based on the pension calculations initially prepared, one retiree will receive \$209 and the other retiree will receive \$113 less in annual pension benefits than the amounts they are entitled to receive pursuant to the plan's governing document.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that the pension benefit calculations were determined properly in accordance with the plan's governing document.

Recommendation: We recommend that municipal officials determine the retirees' pension benefits using the correct wages and adjust their monthly benefit payments prospectively. Furthermore, any benefit payments retroactively due should be paid to the retirees with an appropriate amount of interest.

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

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

SEVEN FIELDS BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 and 4 reflect 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 YEAR ENDED DECEMBER 31, 2014

Total Pension Liability	
Service cost	\$ 32,825
Interest	41,532
Difference between expected and actual experience	(44,711)
Benefit payments, including refunds of member contributions	(13,958)
Net Change in Total Pension Liability	<u>15,688</u>
Total Pension Liability - Beginning	729,903
Total Pension Liability - Ending (a)	<u><u>\$ 745,591</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 23,422
Contribution - member	1,412
PMRS investment income	37,359
Market value investment income	(426)
Benefit payments, including refunds of member contributions	(13,958)
PMRS administrative expense	(160)
Additional administrative expense	(1,433)
Net Change in Plan Fiduciary Net Position	<u>46,216</u>
Plan Fiduciary Net Position - Beginning	674,403
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 720,619</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 24,972</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.7%
Estimated Covered Employee Payroll	\$ 283,926
Net Pension Liability as a Percentage of Covered Employee Payroll	8.8%

SEVEN FIELDS 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, 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	\$ 144,013	\$ 24,972	\$ (74,938)

SEVEN FIELDS 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, 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	\$ 488,867	\$ 438,677	\$ (50,190)	111.4%
01-01-13	632,218	673,879	41,661	93.8%
01-01-15	734,129	745,591	11,462	98.5%

SEVEN FIELDS 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.

SEVEN FIELDS 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
2010	\$ 48,730	100.0%
2011	54,343	100.3%
2012	45,305	100.0%
2013	21,070	113.6%
2014	17,059	136.4%
2015	30,353	100.0%

SEVEN FIELDS BOROUGH NON-UNIFORMED 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	Level dollar
Remaining amortization period	10 years
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%

SEVEN FIELDS BOROUGH NON-UNIFORMED PENSION PLAN
DISTRIBUTION LIST

This letter was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Victor Giannotta
Mayor

Ms. Jennifer Sikora
Council President

Mr. Thomas B. Smith
Borough Manager

Mr. David Kruse
Assistant Secretary

Ms. Kristine M. Cline
Pennsylvania Municipal Retirement System

This letter is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the letter 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.