

LIMITED PROCEDURES ENGAGEMENT

Slatington Borough Police Pension Plan Lehigh County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

June 2018



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
Slatington Borough
Lehigh County
Slatington, PA 18080

We conducted a Limited Procedures Engagement (LPE) of the Slatington 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.
- 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 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 Slatington 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 No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Finding No. 2 – 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 Slatington 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.

June 6, 2018



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Findings and Recommendations:	
Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid.....	1
Finding No. 2 – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan	2
Supplementary Information	4
Report Distribution List	9

SLATINGTON BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: The borough certified 1 ineligible police officer (2 units) and overstated payroll by \$24,658 and failed to certify 1 ineligible non-uniformed officer (1 unit) and understated payroll by \$35,703, on the on the Certification Form AG 385 filed in 2015. In addition, the borough failed to certify 4 eligible non-uniformed employees (4 units) and understated payroll by \$169,694 on the Certification Form AG 385 filed in 2016. Finally, the borough failed to certify 4 eligible non-uniformed employees (4 units) and understated payroll by \$173,606 on the Certification Form AG 385 filed in 2017. 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.

Cause: Plan officials failed to establish adequate internal control procedures to comply with the instructions that accompany Certification Form AG 385 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. Because the borough’s state aid allocations were based on unit value, the borough received an underpayment of state aid of \$31,107 as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2015	Police Non-Uniformed	2 (1)	\$ 3,921 3,921	\$ 7,842 (3,921)
2016	Non-Uniformed	(4)	4,169	(16,676)
2017	Non-Uniformed	(4)	4,588	(18,352)
Net Underpayment of State Aid				<u>\$ (31,107)</u>

SLATINGTON BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Although the borough will be reimbursed for the underpayment of state aid due to the borough's certification errors, the full amounts of the 2016 and 2017 state aid allocations were not available to be deposited timely and therefore were 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 engagement of the plan.

Finding No. 2 – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan

Condition: The borough did not timely pay the 2016 minimum municipal obligation (MMO) that was due to the police pension plan by December 31, 2016 as required by Act 205. Although the borough deposited state aid amounting to \$75,049 on December 28, 2016 towards the plan's 2016 MMO, the borough did not deposit the remainder of the plan's outstanding 2016 MMO balance, \$67,141, until February 15, 2017 and failed to include the interest due on the late deposit of the 2016 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.

SLATINGTON BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 Section 302(e) of Act 205.

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 2016 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 MMO's are paid timely in accordance with Act 205 requirements.

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

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

SLATINGTON BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 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, 2015 AND 2016

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 62,023	\$ 65,124
Interest	179,899	186,841
Benefit payments, including refunds of member contributions	(161,567)	(154,936)
Net Change in Total Pension Liability	<u>80,355</u>	<u>97,029</u>
Total Pension Liability – Beginning	2,267,498	2,347,853
Total Pension Liability - Ending (a)	<u>\$ 2,347,853</u>	<u>\$ 2,444,882</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 63,859	\$ 67,141
Contributions – member	24,391	25,330
Contributions – state aid	78,417	75,049
Net investment income	(20,057)	80,080
Benefit payments, including refunds of member contributions	(161,567)	(154,936)
Net Change in Plan Fiduciary Net Position	<u>(14,957)</u>	<u>92,664</u>
Plan Fiduciary Net Position – Beginning	1,622,828	1,607,871
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,607,871</u>	<u>\$ 1,700,535</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 739,982</u>	<u>\$ 744,347</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.5%	69.6%
 Estimated Covered Employee Payroll	\$ 400,816	\$ 432,497
 Net Pension Liability as a Percentage of Covered Employee Payroll	184.6%	172.1%

SLATINGTON 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, 2015 and 2016, calculated using the discount rate of 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability - 12/31/15	\$ 1,000,817	\$ 739,982	\$ 517,503
Net Pension Liability - 12/31/16	\$ 1,017,354	\$ 744,347	\$ 511,286

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
2008	\$ 108,886	\$ 109,320	\$ (434)	\$ 432,055	25.3%
2009	108,937	108,937	-	432,425	25.2%
2010	130,264	131,310	1,046	415,954	31.6%
2011	108,991	108,991	-	437,681	24.9%
2012	114,149	114,149	-	485,464	23.5%
2013	107,484	107,484	-	438,293	24.5%
2014	129,978	129,978	-	488,666	26.6%
2015	124,276	142,276	(18,000)	400,816	35.5%
2016	142,190	142,190	-	432,497	32.9%
2017	148,077	148,077	-	*	*

* Due to the timing of this engagement, covered-employee payroll for 2017 was not provided in this schedule.

SLATINGTON 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	\$ 1,351,181	\$ 2,050,459	\$ 699,278	65.9%
01-01-15	1,601,085	2,267,498	666,413	70.6%
01-01-17	1,825,875	2,362,524	536,649	77.3%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

SLATINGTON 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.

SLATINGTON 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	7 years
Asset valuation method	5-year smoothing, plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

SLATINGTON 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 Walter Niedermeyer
Mayor

Mr. Daniel Stevens
Council President

Ms. Colleen Bresnak
Assistant Secretary/Treasurer

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.