

# LIMITED PROCEDURES ENGAGEMENT

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## Wesleyville Borough Police Pension Plan Erie County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

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October 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  
Wesleyville Borough  
Erie County  
Wesleyville, PA 16510

We conducted a Limited Procedures Engagement (LPE) of the Wesleyville Borough Police 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 findings 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 the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the 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 Wesleyville 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 subsequent to this letter:

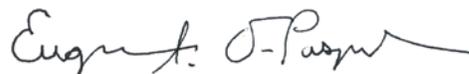
- Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Ordinance Improperly Amended By Borough Council Motion
- Finding No. 2 – Untimely Deposit Of State Aid
- Finding No. 3 – Failure To Appoint A Chief Administrative Officer

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 Wesleyville 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.

September 23, 2016



EUGENE A. DEPASQUALE  
Auditor General

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WESLEYVILLE BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

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

During the current engagement period, municipal officials accurately reported the required pension data.

Partial Compliance With Prior Audit Recommendation

Wesleyville Borough has partially complied with the prior audit recommendation concerning the following:

- Unauthorized Provision For A Killed In Service Benefit

During the current engagement period, municipal officials eliminated the unauthorized killed in service benefit provision from the collective bargaining agreements for the full-time officers and the Chief of Police. In addition, an amended plan joinder agreement was adopted with an effective date of January 1, 2016, that eliminated the killed in service benefit; however, this amended joinder agreement was adopted by borough council through a motion rather than by the passage of an ordinance. See Finding No. 1 in the Findings and Recommendations section of this letter.

WESLEYVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Ordinance Improperly Amended By Borough Council Motion**

Condition: During the current engagement period, borough council adopted an amended plan joinder agreement, effective January 1, 2016, which eliminated the killed in service benefit provision that was cited in our prior audit report. However, this amended joinder agreement was adopted through a motion at a borough council meeting rather than by the passage of an ordinance.

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance. Because the pension plan was established by an ordinance and all previous joinder agreements were adopted by an ordinance, the new joinder agreement must also be adopted by an ordinance.

Cause: Municipal officials were not aware that the original joinder agreement was approved by an ordinance and thus all future agreements and amendments also had to be approved by an ordinance.

Effect: The failure to properly adopt the amended plan joinder agreement could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials take appropriate action to formally adopt the amended joinder agreement through a properly executed ordinance.

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

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

**Finding No. 2 – Untimely Deposit Of State Aid**

Condition: The municipality did not deposit its 2014 state aid allocation into the pension plans within the 30 day grace period allowed by Act 205. The municipality received its 2014 state aid allocation in the amount of \$58,090 on September 23, 2014, but did not deposit the money into its police and employee pension plans until December 30, 2014.

WESLEYVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: The 2014 state aid was not deposited timely into the municipality’s pension plans because internal control procedures were not in effect to ensure the timely deposit of state aid.

Effect: Although the state aid was deposited into the plans, the interest earned beyond the 30 day grace period was not deposited into the plans. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the police pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

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.

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. 3 – Failure To Appoint A Chief Administrative Officer**

Condition: Municipal officials did not appoint a chief administrative officer (CAO) for the pension plan by ordinance, resolution, or by a motion recorded in the minutes of a council meeting.

Criteria: Section 102 of Act 205 defines the CAO as “The person who has primary responsibility for the execution of the administrative affairs of the municipality in the case of the municipality, or of the pension plan in the case of the pension plan, or the designee of that person.”

WESLEYVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Municipal officials may appoint two CAOs - one for the pension plan and one for the municipality or appoint one person to fill both positions. Act 205 identifies specific duties for each position, as follows:

CAO of the Municipality

- Supervise and direct the preparation of actuarial reports (Section 201(d));
- Certify and file actuarial valuation reports with the Public Employee Retirement Commission (Section 201(b)); and
- Make actuarial report information available to plan members (Section 201(e)).

CAO of the Pension Plan

- Annually, determine and submit to the governing body of the municipality the financial requirements of the pension plan and minimum municipal obligation (Section 302(b), Section 302(c), Section 303(b), Section 303(c) and Section 304); and
- Provide the governing body of the municipality with a cost estimate of the effect of any proposed benefit plan modification (Section 305(a)).

Cause: The prior CAO of the pension plan passed away in 2014 and plan officials were unaware of the need to appoint a new CAO for the pension plan in accordance with Act 205 provisions.

Effect: The failure to formally appoint a CAO could result in important filing deadlines being overlooked, state aid being adversely affected and/or delayed, and investment opportunities being lost.

Recommendation: Because of the significance of the CAO's responsibilities to the municipality and pension plan, we recommend that the CAO be formally appointed by ordinance, resolution, or motion recorded in the minutes of a council meeting. Such ordinance, resolution, or motion should detail the CAO's responsibilities and be filed with other plan documents.

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.

WESLEYVILLE 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	\$ 1,242,467	\$ 911,875	\$ (330,592)	136.3%
01-01-13	1,323,463	1,337,370	13,907	99.0%
01-01-15	1,528,342	1,649,252	120,910	92.7%

Note: The market values of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses over a 4-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.

WESLEYVILLE 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.

WESLEYVILLE 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
2010	None	N/A
2011	\$ 22,871	100.0%
2012	27,943	102.6%
2013	54,858	100.0%
2014	57,302	100.0%
2015	101,403	100.0%

WESLEYVILLE 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	Level dollar
Remaining amortization period	17 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	7.25%
Projected salary increases *	5.5%
Cost-of-living adjustments	3.0%

\* Includes inflation at 3.0%

WESLEYVILLE BOROUGH POLICE PENSION PLAN  
DISTRIBUTION LIST

This letter was initially distributed to the following:

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Commonwealth of Pennsylvania

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Mayor

**Mr. Guy Lombardozi**  
Council President

**Mr. Paul Bills**  
Council Vice-President

**Mr. Will Crotty**  
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