

LIMITED PROCEDURES ENGAGEMENT

Weatherly Borough Police Pension Plan Carbon County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

February 2016



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
Weatherly Borough
Carbon County
Weatherly, PA 18255

We conducted a Limited Procedures Engagement (LPE) of the Weatherly Borough Police Pension Plan for the period January 1, 2012 to December 31, 2014 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 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 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 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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 Weatherly 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 subsequent to this letter:

Finding – Noncompliance With Prior Audit Recommendation – Failure
To Provide A Survivor Benefit In Accordance With Act 600
Provisions

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 Weatherly 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.

February 4, 2016

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE
Auditor General

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WEATHERLY BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Weatherly Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this letter:

- Failure To Provide A Survivor Benefit In Accordance With Act 600 Provisions

WEATHERLY BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Noncompliance With Prior Audit Recommendation - Failure To Provide A Survivor Benefit In Accordance With Act 600 Provisions

Condition: As disclosed in our prior audit report, a vested plan member who terminated on September 5, 2002, at 41 years of age with 16.5 years of service, died on January 28, 2009. When the retired police officer died in 2009, he was eligible to receive a vested pension benefit based upon his years of service, payable as of the date he would have reached superannuation retirement age, which was March 1, 2011. As such, the member's surviving spouse is entitled to receive a portion of whatever benefit the member officer would have been entitled to at the time of his death. However, borough officials still failed to determine and pay a benefit to the surviving spouse.

Criteria: Act 600 at Section 1(a)(4), states:

The surviving spouse of a member of the police force or a member who retires on pension who dies or if no spouse survives or if he or she survives and subsequently dies, then the child or children under the age of eighteen years or, if attending college, under or attaining the age of twenty-three years, of a member of the police force or a member who retires on pension who dies shall during her lifetime in the case of a surviving spouse or until reaching the age of eighteen years or if attending college, under or attaining the age of twenty-three years, in the case of a child or children, be entitled to receive a pension calculated at no less than fifty per centum of the pension the member was receiving or would have been receiving had he been retired at the time of his death.

Furthermore, Section 5(h)(ii) of Act 600, states, in part:

...should a police officer, before completing superannuation retirement age and service requirements but after having completed twelve years of total service, for any reason cease to be employed as a full-time police officer by the municipality or regional police department in whose pension fund he has been a member, he shall be entitled to vest his retirement benefits...

WEATHERLY BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

Consequently, Act 600 pension benefits for a surviving spouse are derivative of the plan member's eligibility to receive such a benefit. The former Weatherly Borough police officer was eligible to receive a future pension benefit because he was vested in the plan at the time of his death. Therefore, his surviving spouse is entitled to receive no less than one-half of the prorated pension benefit he was to receive under the plan with this benefit payable upon the date he would have reached superannuation retirement age.

Cause: Plan officials stated that they could not locate the surviving spouse but are continuing to search for this individual and have turned the information over to their solicitor for assistance in locating the surviving spouse.

Effect: The police officer's surviving spouse has not received the pension benefits due pursuant to Act 600 provisions.

Recommendation: We again recommend that plan officials continue their efforts to locate the surviving spouse and pay the monthly pension benefit due retroactive to the deceased police officer's eligibility date.

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

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

WEATHERLY BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 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	\$	56,642
Interest		35,179
Benefit payments, including refunds of member contributions		(12,723)
Net Change in Total Pension Liability		<u>79,098</u>
Total Pension Liability – Beginning		731,394
Total Pension Liability - Ending (a)	\$	<u><u>810,492</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$	4,447
Net investment income		43,253
Benefit payments, including refunds of member contributions		(12,723)
Administrative expense		(4,993)
Net Change in Plan Fiduciary Net Position		<u>29,984</u>
Plan Fiduciary Net Position - Beginning		1,065,338
Plan Fiduciary Net Position - Ending (b)	\$	<u><u>1,095,322</u></u>
Net Pension Liability - Ending (a-b)	\$	<u><u>(284,830)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		135.1%
Estimated Covered Employee Payroll	\$	124,884
Net Pension Liability as a Percentage of Covered Employee Payroll		(228.1%)

WEATHERLY 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, calculated using the discount rate of 4.5%, 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 (3.5%)	Current Discount Rate (4.5%)	1% Increase (5.5%)
Net Pension Liability	\$ (139,415)	\$ (284,830)	\$ (401,565)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2014	4.16%
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WEATHERLY 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, 2009, 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)
01-01-09	\$ 973,277	\$ 517,123	\$ (456,154)	188.2%
01-01-11	1,029,302	508,896	(520,406)	202.3%
01-01-13	1,061,110	645,954	(415,156)	164.3%

WEATHERLY 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.

WEATHERLY 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
2009	\$ 8,405	100.0%
2010	None	N/A
2011	10,754	100.0%
2012	None	N/A
2013	None	N/A
2014	4,447	100.0%

WEATHERLY 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, 2013
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	4.5%
Projected salary increases	5.0%

WEATHERLY BOROUGH POLICE PENSION PLAN
DISTRIBUTION LIST

This letter was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Weatherly Borough Police Pension Plan
Carbon County
10 Wilbur Street
Weatherly, PA 18255

The Honorable Thomas Connors	Mayor
Mr. Harold J. Pudliner, Jr.	Borough Manager
Ms. Lori O'Donnell	Secretary

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.