

COMPLIANCE AUDIT

Aldan Borough Police Pension Plan Delaware County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

November 2019



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
Aldan Borough
Delaware County
Aldan, PA 19018

We have conducted a compliance audit of the Aldan Borough Police Pension Plan for the period January 1, 2015 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined 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 period under audit.

- We determined 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.
- We determined whether annual employee contributions 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 period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for both of the plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Aldan Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously

described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the Aldan Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Aldan Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

October 30, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status Of Prior Findings.....	3
Supplementary Information	4
Report Distribution List	11

BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). 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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Aldan Borough Police Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Aldan Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 437, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established December 18, 1959. Active members are required to contribute 5 percent of salary to the plan. As of December 31, 2018, the plan had 4 active members, no terminated members eligible for vested benefits in the future, and 5 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service.
Early Retirement	None
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

A monthly benefit equal to 50% of final 36 months average salary, plus a service increment of \$100 per month for each year of service in excess of 25 years, up to a maximum of \$500 per month.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 100% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

A monthly benefit equal to 70% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

ALDAN BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Inconsistent Pension Benefits

Municipal officials amended the provision for a survivor's benefit contained in the plan's governing document to eliminate the inconsistency with the collective bargaining agreement.

Status Of Prior Audit Recommendation

- Collective Bargaining Agreement Contains An Unauthorized Non-Service Related Disability Benefit Provision

The two previous audit reports covering the periods January 1, 2009 to December 31, 2011, and January 1, 2012 to December 31, 2014, contained a finding that the collective bargaining agreement between the borough and its police officers contained a provision for the payment of a non-service related disability benefit which is not authorized by Act 600. During the current audit period, municipal officials negotiated a collective bargaining agreement for the period January 1, 2016 to December 31, 2019, eliminating the unauthorized non-service related disability benefit provision for police officers hired on or after January 1, 2016. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay non-service-related disability benefits for police officers hired prior to such date, the cost of the unauthorized benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the borough's future state aid allocations and submit this information to the department. Since the borough received state aid based on unit value during the audit period, it did not receive state aid attributable to the excess benefits being provided. The department will continue to monitor the impact of the excess benefits being paid to existing and future retirees on the plan's future state aid allocations.

ALDAN BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 through 7 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, 2015 AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 66,264	\$ 65,359	\$ 68,627
Interest	280,346	273,345	288,727
Changes of Benefit Terms	-	(12,863)	-
Difference between expected and actual experience	-	(312,470)	-
Changes of Assumptions	-	51,087	-
Benefit payments, including refunds of member contributions	<u>(168,223)</u>	<u>(149,707)</u>	<u>(149,707)</u>
Net Change in Total Pension Liability	178,387	(85,249)	207,647
Total Pension Liability – Beginning	<u>3,522,171</u>	<u>3,700,558</u>	<u>3,615,309</u>
Total Pension Liability – Ending (a)	<u>\$ 3,700,558</u>	<u>\$ 3,615,309</u>	<u>\$ 3,822,956</u>
Plan Fiduciary Net Position			
Contributions – Employer	\$ 177,696	\$ 177,898	\$ 107,272
Contributions – State Aid	38,727	39,208	43,746
Contributions – Member	23,750	26,161	24,000
Net Investment Income	172,708	(26,815)	205,070
Benefit payments, including refunds of member contributions	<u>(168,223)</u>	<u>(149,707)</u>	<u>(149,707)</u>
Administrative Expenses	<u>(3,200)</u>	<u>(7,000)</u>	<u>(5,500)</u>
Net Change in Plan Fiduciary Net Position	241,458	59,745	224,881
Plan Fiduciary Net Position – Beginning	<u>2,438,840</u>	<u>2,680,298</u>	<u>2,740,043</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,680,298</u>	<u>\$ 2,740,043</u>	<u>\$ 2,964,924</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,020,260</u>	<u>\$ 875,266</u>	<u>\$ 858,032</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.4%	75.8%	77.6%
Estimated Covered Employee Payroll	\$ 467,166	\$ 474,718	\$ 494,020
Net Pension Liability as a Percentage of Covered Employee Payroll	218.4%	184.4%	173.7%

ALDAN BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Service cost	\$ 74,028	\$ 77,729
Interest	288,942	310,904
Difference between expected and actual experience	(243,829)	-
Changes of assumptions	6,993	-
Benefit payments, including refunds of member contributions	(96,756)	(87,518)
Net Change in Total Pension Liability	<u>29,378</u>	<u>301,115</u>
Total Pension Liability – Beginning	3,822,956	3,852,334
Total Pension Liability – Ending (a)	<u>\$ 3,852,334</u>	<u>\$ 4,153,449</u>
 Plan Fiduciary Net Position		
Contributions – Employer	\$ 105,538	\$ 109,137
Contributions – State Aid	45,883	37,475
Contributions – Member	20,079	20,792
Net investment income	470,463	(210,786)
Benefit payments, including refunds of member contributions	(96,756)	(87,518)
Administrative expense	(7,400)	(4,000)
Net Change in Plan Fiduciary Net Position	<u>537,807</u>	<u>(134,900)</u>
Plan Fiduciary Net Position – Beginning	2,964,924	3,502,731
Plan Fiduciary Net Position – Ending (b)	<u>\$ 3,502,731</u>	<u>\$ 3,367,831</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 349,603</u>	<u>\$ 785,618</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.9%	81.1%
 Estimated Covered Employee Payroll	\$ 498,594	\$ 425,000
 Net Pension Liability as a Percentage of Covered Employee Payroll	70.1%	184.9%

ALDAN 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, 2016, 2017 and 2018, 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	\$ 1,276,966	\$ 875,266	\$ 536,076
Net Pension Liability – 12/31/16	\$ 1,271,401	\$ 858,032	\$ 508,868
Net Pension Liability – 12/31/17	\$ 763,263	\$ 349,603	\$ 102
Net Pension Liability – 12/31/18	\$ 1,211,633	\$ 785,618	\$ 425,920

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
2014	\$ 216,423	\$ 216,423	\$ -	\$ 467,166	46.33%
2015	217,106	217,106	-	474,718	45.73%
2016	151,018	151,018	-	494,020	30.57%
2017	151,420	151,420	-	498,594	30.37%
2018	146,612	146,612	-	425,000	34.50%

ALDAN BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(6.42%)
2017	16.42%
2016	7.72%
2015	(1.11%)
2014	7.23%

ALDAN 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	\$ 2,143,980	\$ 3,366,328	\$ 1,222,348	63.7%
01-01-15	2,680,298	3,426,312	746,014	78.2%
01-01-17	2,964,924	3,586,120	621,196	82.7%

ALDAN 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.

ALDAN 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	5 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0% per annum

ALDAN 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 Carmen Maniaci
Mayor

Mr. Harry J. Short
Council President

Ms. Sandra M. Urban
Council Vice President

Ms. Mary Jo Corrigan
Councilwoman

Mr. Joseph Connolly
Councilman

Mr. Sal Oropollo
Councilman

Mr. Sandy Durso
Councilman

Mr. Steve Maiden
Councilman

Mr. John White
Borough Manager

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.