

COMPLIANCE AUDIT

Ambler Borough Non-Uniformed Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

July 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
Ambler Borough
Montgomery County
Ambler, PA 19002

We have conducted a compliance audit of the Ambler Borough Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017. 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 finding 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 finding 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 all 7 of the plan members who retired during the current audit 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for a plan member who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the vested individual and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined 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.

Ambler Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Ambler Borough Non-Uniformed 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 Ambler Borough Non-Uniformed 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 Ambler Borough and, where appropriate, their responses have been included in the report.

July 12, 2018



EUGENE A. DEPASQUALE
Auditor General

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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 Ambler Borough Non-Uniformed 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

The Ambler Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 467, as amended, for non-uniformed employees hired prior to January 1, 2014. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established January 1, 1961. Active members are required to contribute 3 percent of compensation to the plan. As of December 31, 2017, the plan had 17 active members, 1 terminated member eligible for vested benefits in the future, and 12 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Last day of month in which member's 65 th birthday occurs.
Early Retirement	Attainment of age 55 and at least 25 years of service or the completion of 20 years of service.
Vesting	Member is 100% vested after 10 years of service.

Retirement Benefit:

The greater of 25% of average monthly earnings over the 3 calendar years prior to termination reduced for less than 15 years at age 65 or 40% of average monthly earnings over the calendar years prior to termination reduced for service less than 25 years at age 65.

Survivor Benefit:

If a member dies before 60 monthly payments have been received, the remainder of the 60 months will automatically continue to his beneficiary. This is the normal form of pension. Joint and survivor benefits are available on an actuarially reduced basis.

Disability Benefit:

None

AMBLER BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Ambler 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 audit period, the borough reimbursed \$2,095 to the Commonwealth for the overpayment of state aid received in 2013. Although a similar condition occurred during the current audit period as disclosed in the Non-Uniformed Defined Contribution and Police Pension plans' audit reports, this condition did not impact the borough's non-uniformed pension plan and therefore, no further disclosure warranted in this report.

AMBLER BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 through 6 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, AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 108,733	\$ 141,552
Interest	287,860	280,003
Difference between expected and actual experience	(77,140)	(31,150)
Assumption Changes	-	272,441
Benefit payments, including refunds of member contributions	<u>(86,889)</u>	<u>(80,689)</u>
Net Change in Total Pension Liability	232,564	582,157
Total Pension Liability - Beginning	<u>3,885,200</u>	<u>4,117,754</u>
Total Pension Liability - Ending (a)	<u><u>\$ 4,117,764</u></u>	<u><u>\$ 4,699,911</u></u>
 Plan Fiduciary Net Position		
Contributions – Employer	\$ 106,693	\$ 50,699
Contribution – Member	52,701	46,764
Net investment income	361,171	(109,802)
Benefit payments, including refunds of member contributions	(86,889)	(80,689)
Administrative expense	(24,596)	(27,492)
Other income	<u>2,073</u>	<u>7,634</u>
Net Change in Plan Fiduciary Net Position	411,153	(112,886)
Plan Fiduciary Net Position - Beginning	<u>4,718,281</u>	<u>5,129,434</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 5,129,434</u></u>	<u><u>\$ 5,016,548</u></u>
 Net Pension Liability - Ending (a-b)	<u><u>\$ (1,011,670)</u></u>	<u><u>\$ (316,637)</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	124.57%	106.74%
 Estimated Covered Employee Payroll	\$ 1,845,636	\$ 1,793,834
 Net Pension Liability as a Percentage of Covered Employee Payroll	(54.81%)	(17.65%)

AMBLER BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016, AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 96,856	\$ 112,308
Interest	316,301	327,801
Difference between expected and actual experience	(36,479)	(60,890)
Benefit payments, including refunds of member contributions	<u>(221,658)</u>	<u>(221,842)</u>
Net Change in Total Pension Liability	155,020	157,377
Total Pension Liability - Beginning	<u>4,699,911</u>	<u>4,854,931</u>
Total Pension Liability - Ending (a)	<u>\$ 4,854,931</u>	<u>\$ 5,012,308</u>
Plan Fiduciary Net Position		
Contributions – State Aid	\$ 17,213	\$ -
Contribution – Member	43,835	37,765
Net investment income	385,800	615,455
Benefit payments, including refunds of member contributions	<u>(221,658)</u>	<u>(221,842)</u>
Administrative expense	<u>(25,651)</u>	<u>(41,038)</u>
Net Change in Plan Fiduciary Net Position	199,539	390,340
Plan Fiduciary Net Position - Beginning	<u>5,016,548</u>	<u>5,216,087</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 5,216,087</u>	<u>\$ 5,606,427</u>
Net Pension Liability - Ending (a-b)	<u>\$ (361,156)</u>	<u>\$ (594,119)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	107.44%	111.85%
Estimated Covered Employee Payroll	\$ 1,432,148	\$ 1,148,998
Net Pension Liability as a Percentage of Covered Employee Payroll	(25.22%)	(41.00%)

AMBLER 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, 2015, 2016, and 2017, calculated using the discount rate of 6.75%, 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 (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability - 12/31/15	\$ 195,190	\$ (316,637)	\$ (755,474)
Net Pension Liability - 12/31/16	\$ 159,455	\$ (361,156)	\$ (807,771)
Net Pension Liability - 12/31/17	\$ (76,685)	\$ (594,119)	\$ (1,038,484)

The following presents the net pension liability of the borough as of December 31, 2014 calculated using the discount rate of 7.50%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability - 12/31/14	\$ (558,407)	\$ (1,011,670)	\$ (1,400,754)

SCHEDULE OF INVESTMENT RETURNS

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

2017	11.70%
2016	7.69%
2015	(6.27%)
2014	6.20%

AMBLER 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, 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	\$ 3,859,620	\$ 3,475,928	\$ (383,692)	111.0%
01-01-15	5,129,434	4,340,691	(788,743)	118.2%
01-01-17	5,216,087	4,760,673	(455,414)	109.6%

AMBLER 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.

AMBLER 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
2012	\$ 83,830	202.5%
2013	81,798	109.8%
2014	89,819	118.8%
2015	50,699	100.0%
2016	17,213	100.0%
2017	None	N/A

AMBLER 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, 2017
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	3.75%
Cost-of-living adjustments	None assumed

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This report was initially distributed to the following:

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