

LIMITED PROCEDURES ENGAGEMENT

Apollo Borough Non-Uniformed Pension Plan Armstrong County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

February 2018



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
Apollo Borough
Armstrong County
Apollo, PA 15613

We conducted a Limited Procedures Engagement (LPE) of the Apollo Borough Non-Uniformed Pension Plan for the period January 1, 2013 to December 31, 2016 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether the January 1, 2011, January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former 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 are 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.
- Whether the terms of the plan's allocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Apollo Borough Non-Uniformed 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 – Partial Compliance With Prior Audit Recommendation - Receipt Of State Aid In Excess Of Entitlement

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 Apollo 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.

January 31, 2018



EUGENE A. DEPASQUALE
Auditor General

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APOLLO BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Apollo Borough has complied with the prior audit recommendations concerning the following:

- Failure To Properly Fund Member's Account

Borough officials deposited \$3,659 into the vested member's account with PMRS as previously recommended.

- 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 on the Certification Forms AG 385.

- Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Subsequent to the engagement period, PMRS transferred \$1,674, plus interest, from the member's account to the municipal account to be used towards future contributions required by the borough.

Partial Compliance With Prior Audit Recommendation

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

- Receipt Of State Aid In Excess Of Entitlement

On December 1, 2014, the borough returned \$2,671 to the Commonwealth for the excess state aid received in 2012; however, the borough again received state aid in excess of the combined municipal pension costs of the borough's non-uniformed and police pension plan's defined contribution pension plans for the years 2014 and 2016 as further discussed in the Finding and Recommendation section of this report.

APOLLO BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement

Condition: As disclosed in the Status of Prior Findings section of this report, although the borough partially complied with our prior audit recommendation by returning \$2,671 to the Commonwealth during 2014 representing the excess state aid received in 2012; a similar condition occurred during the current audit period. The borough again received state aid in excess of the combined municipal pension costs of the non-uniformed and police pension plan’s defined contribution pension plans during the years 2014 and 2016, as illustrated below:

	<u>2014</u>	<u>2016</u>
State aid allocation	\$ 7,514	\$ 12,275
Actual municipal pension costs	(6,897)	(9,307)
Excess state aid	\$ 617	\$ 2,968

In addition, our records indicate that these excess state aid amounts remained in the general fund and were not deposited into an eligible pension plan or returned to the Commonwealth for re-distribution in accordance with Act 205.

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

In addition, 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 mechanism applicable to the respective pension plans.

APOLLO BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the borough's state aid allocation and employee forfeitures available to reduce municipal contributions, as noted in the finding contained in the police pension plan report, with the combined municipal pension plans' actual defined contribution pension costs.

Effect: It is this department's opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the years 2014 and 2016 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$3,585 of excess state aid received in the years 2014 and 2016 to the Commonwealth from the general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we recommend that, in the future, plan officials reconcile the borough's annual state aid allocation, municipal contributions made to the borough's pension plans and any available employee forfeitures with the borough's plans' annual actual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

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

Auditor's Conclusion: Due to the potential withhold of state aid, the borough's compliance with the finding recommendation will be monitored subsequent to the release of the engagement report and through our next engagement of the plan.

APOLLO BOROUGH NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this report cites an overpayment of state aid to the borough in the amount of \$3,585, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

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

The supplementary information contained on Pages 5 and 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	\$ 11,198	\$ 6,919
Interest	2,708	3,459
Differences between expected and actual experience	-	1
Net Change in Total Pension Liability	<u>13,906</u>	<u>10,379</u>
Total Pension Liability - Beginning	<u>46,409</u>	<u>60,315</u>
Total Pension Liability - Ending (a)	<u><u>\$ 60,315</u></u>	<u><u>\$ 70,694</u></u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 11,310	\$ 6,919
Contributions – PMRS assessment	-	80
PMRS investment income	2,682	3,428
Market value investment income	(295)	(4,078)
PMRS administrative expense	(80)	(80)
Additional administrative expense	(103)	(143)
Net Change in Plan Fiduciary Net Position	<u>13,514</u>	<u>6,126</u>
Plan Fiduciary Net Position - Beginning	<u>45,918</u>	<u>59,432</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 59,432</u></u>	<u><u>\$ 65,558</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 883</u></u>	<u><u>\$ 5,136</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.54%	92.73%
Estimated Covered Employee Payroll	\$ 66,019	\$ 69,701
Net Pension Liability as a Percentage of Covered Employee Payroll	1.34%	7.37%

* The 2014 employer contributions include contributions in the amount of \$4,436 for the year 2011.

APOLLO 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, 2014 and 2015, calculated using the discount rate of 5.5%, 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 (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
	<hr/>	<hr/>	<hr/>
Net Pension Liability - 12/31/14	\$ 12,946	\$ 883	\$ (11,180)
Net Pension Liability - 12/31/15	\$ 19,274	\$ 5,136	\$ (9,003)

APOLLO BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 8,955	\$ 1,228
2012	9,399	None
2013	3,884	2,965
2014	6,877	None
2015	6,999	None
2016	7,499	None

APOLLO BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Jeffrey Held
Council President

Mr. John Kautz
Council President

Ms. Cynthia McDemott
Borough Manager

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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.