

COMPLIANCE AUDIT

Brockway Borough Police Pension Plan Jefferson County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

March 2017



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
Brockway Borough
Jefferson County
Brockway, PA 15824

We have conducted a compliance audit of the Brockway Borough Police Pension Plan for the period January 1, 2013 to December 31, 2015. 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined 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 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 the terms of the contractual agreement with the Pennsylvania State Association of Boroughs were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for one of the transfers made during the audit period and through the completion of our fieldwork procedures.
- 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 Brockway 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 Brockway Borough Police Pension Plan was 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 later in this report:

Finding – Partial Compliance With Prior Audit Recommendation – Pension Benefits In Excess Of Act 37

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 Brockway 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.

February 17, 2017



EUGENE A. DEPASQUALE
Auditor General

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ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

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 Brockway 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 37 - The Borough Code, Act of April 18, 2014 (P.L. 432, No. 37), Chapter 11, Subchapter F Police Pension Fund in Boroughs Having a Police Force of Less Than Three Members, as amended, 8 Pa. C.S. § 1131 et seq.

The Brockway Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 692, effective January 1, 2015, pursuant to Act 37 (formerly Act 581). Prior to the adoption of Ordinance No. 692, the pension plan was locally controlled by the provisions of Ordinance No. 654A, as amended, pursuant to Act 581. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established November 1, 1977. Active members are not required to contribute to the plan. As of December 31, 2015, the plan had 2 active members, no terminated members eligible for vested benefits in the future, and 3 retirees receiving pension benefits.

BACKGROUND – (Continued)

As of December 31, 2015, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service.
Early Retirement	After 20 years of service.
Vesting	Member is 100% vested after 10 years of service.

Retirement Benefit:

Benefit equal to 75% of final 36 months average compensation.

Survivor Benefit:

None

Service Related Disability Benefit:

75% of final 36 months average compensation.

BROCKWAY BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

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

- Pension Benefits In Excess Of Act 581

During the current audit period, the borough amended the plan's governing document and the collective bargaining agreement to remove the benefit provisions that were not in compliance with Act 37 (formerly Act 581); however, survivor benefits continue to be paid from the plan, and the impact of the excess benefits on the borough's state aid allocations received during and subsequent to the current audit period has not been determined, as further discussed in the Finding and Recommendation section of this report.

BROCKWAY BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Pension Benefits In Excess Of Act 37

Condition: As disclosed in the prior audit report, the pension plan’s governing document granted a survivor benefit that was not authorized by Act 37 (formerly known as Act 581), and both the governing document and the collective bargaining agreement between the police officers and the borough contained a non-service related disability benefit provision which also was not authorized by Act 37.

During the current audit period, the municipality amended the plan’s governing document and the collective bargaining agreement to remove the unauthorized survivor benefit provision and the unauthorized non-service related disability benefit provision from the pension plan. These amendments were effective January 1, 2015; however, excess survivor benefits continue to be paid from the plan for an employee who retired prior to this date, and the impact of the excess benefits on the borough’s state aid allocations received during and subsequent to the current audit period has not been determined.

Criteria: To the extent that the borough is not in compliance with Act 37 and/or is contractually obligated to pay benefits to an existing survivor in excess of those authorized by Act 37, such benefits are deemed ineligible for funding with state pension aid.

Cause: Excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Because the borough’s state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the correct inclusion of excess benefits in the actuarial valuation report may have resulted in the allocation of excess state aid.

Effect: In February of 2011, a retiree passed away and his surviving spouse began receiving pension benefits the following month in the amount of \$796 per month. As of the date of this report, the survivor has received excess benefits of approximately \$57,312.

Providing unauthorized pension benefits increases the plan’s pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. The provision of unauthorized pension benefits may have resulted in the receipt of excess state aid and could increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

BROCKWAY BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: To the extent that the borough is contractually obligated to pay benefits to a survivor in excess of those authorized by Act 37, the excess 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. We recommend that the plan's actuary prepare Supplemental Actuarial Information Form AG-MP-1 for the January 1, 2013 and January 1, 2015 valuation dates. If it is determined the unauthorized benefits had an impact on the borough's state aid allocations received since 2014, the Form(s) AG-MP-1 should be submitted to the Department. Furthermore, after the submission of the form, the plan's actuary should contact the Department to verify the overpayment of state aid received and plan officials should then reimburse the overpayment to the Commonwealth.

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

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

BROCKWAY BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

The supplementary information contained on Pages 6 and 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 YEAR ENDED DECEMBER 31, 2015

Total Pension Liability		
Service cost	\$	25,029
Interest		56,582
Benefit payments, including refunds of member contributions		(62,732)
Net Change in Total Pension Liability		18,879
Total Pension Liability - Beginning		876,831
Total Pension Liability - Ending (a)	\$	895,710
Plan Fiduciary Net Position		
Contributions – State aid*	\$	27,547
Net investment income		5,111
Benefit payments, including refunds of member contributions		(62,732)
Administrative expense		(7,629)
Net Change in Plan Fiduciary Net Position		(37,703)
Plan Fiduciary Net Position - Beginning		838,596
Plan Fiduciary Net Position - Ending (b)	\$	800,893
Net Pension Liability - Ending (a-b)	\$	94,817
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		89.4%
Estimated Covered Employee Payroll	\$	82,770
Net Pension Liability as a Percentage of Covered Employee Payroll		114.6%

* Employer contributions include \$960 of 2013 state aid deposited in 2015.

BROCKWAY 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, calculated using the discount rate of 6.5%, 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 (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net Pension Liability	\$ 207,135	\$ 94,817	\$ 1,563

SCHEDULE OF INVESTMENT RETURNS

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

2015	0.63%
2014	4.95%

**BROCKWAY 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	\$ 1,016,326	\$ 955,649	\$ (60,677)	106.3%
01-01-13	809,930	856,472	46,542	94.6%
01-01-15	838,596	876,831	38,235	95.6%

BROCKWAY 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.

BROCKWAY 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	\$ 1,788	109.1%
2011	164	972.6%
2012	4,141	100.0%
2013	2,896	133.1%
2014	24,692	100.0%
2015	25,795	103.1%

BROCKWAY 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	29 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	4.0%
Cost-of-living adjustments	None assumed

BROCKWAY BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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The Honorable William Hrinia
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