

COMPLIANCE AUDIT

Brockway Borough Police Pension Plan Jefferson County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

December 2020



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
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, 2016 to December 31, 2019. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 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 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 for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined whether retirement benefits calculated for the 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 and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and payable to the recipient.
- We determined whether the January 1, 2015, January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 2018, and 2020, 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 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. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 Recommendation – Overpayment Of State Aid Due To The Provision Of Unauthorized Survivor Benefits

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.

December 10, 2020

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

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Finding and Recommendation:	
Finding – Partial Compliance With Prior Recommendation – Overpayment Of State Aid Due To The Provision Of Unauthorized Survivor Benefits.....	3
Supplementary Information	5
Report Distribution List	9

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.

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 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, which adopted a PSABMRT joinder agreement, effective January 1, 2015. 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, 2019, the plan had no active members, 1 terminated member eligible for vested benefits in the future, and 3 retirees receiving pension benefits.

BROCKWAY BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

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

· Pension Benefits In Excess Of Act 37

During the prior 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, including an unauthorized survivor benefit provision. These amendments were effective January 1, 2015; however, excess survivor benefits continue to be paid from the plan to the surviving spouse of an employee who retired prior to that date. In addition, in April 2017, the borough began paying another excess survivor benefit from the pension plan to the surviving spouse of another employee who retired prior to January 1, 2015.

During the current audit period, as recommended in the prior audit report, the plan's actuary prepared Supplemental Actuarial Information Forms AG-MP-1 as of January 1, 2013, January 1, 2015, and January 1, 2017, and it was determined that the borough received excess state aid in the amounts of \$6,360 in 2014, \$6,360 in 2015, \$8,679 in 2016, \$8,679 in 2017, \$11,566 in 2018, and \$11,566 in 2019, attributable to the excess survivor benefit being paid to the first surviving spouse. The borough returned these excess state aid amounts, with interest, to the Commonwealth during the current audit period.

Subsequent to the current audit period, the plan's actuary prepared Supplemental Actuarial Information Form AG-MP-1 as of January 1, 2019, and it was determined that the borough received excess state aid in the amount of \$15,342 in 2020, which the borough has returned to the Commonwealth. However, only the excess survivor benefit for the first surviving spouse was accounted for in the Form AG-MP-1 and, therefore, the effect on the 2020 state aid was not determined for the excess survivor benefit being paid to the second surviving spouse. The plan's actuary subsequently submitted revised figures to the Department for the Form AG-MP-1 as of January 1, 2019 to include the effect of the second survivor benefit, and the additional effect on the borough's 2020 state aid allocation was determined but not yet returned to the Commonwealth, 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 Recommendation – Overpayment Of State Aid
Due To The Provision Of Unauthorized Survivor Benefits**

Condition: As disclosed in the Status of Prior Finding section of this report, the plan’s governing document and collective bargaining agreement have been amended to remove the unauthorized survivor benefit provision that was not in compliance with Act 37. 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. In addition, in April 2017, the borough began paying another excess survivor benefit from the pension plan for an employee who retired prior to January 1, 2015. While the borough determined the effect of the excess benefits being paid to the first surviving spouse on the borough’s state aid allocations from 2014 through 2020, and has returned the excess state aid to the Commonwealth, the borough failed to determine the effect of the excess benefits being paid to the second surviving spouse on the borough’s 2020 state aid allocation until notified by this Department.

Criteria: To the extent that the borough is not in compliance with Act 37, and/or is contractually obligated to pay benefits to existing retirees/survivors 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 annual 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 resulted in the allocation of excess state aid. The borough’s failure to include the effect of the second excess survivor benefit in the Supplemental Actuarial Information Form AG-MP-1 as of January 1, 2019, and failure to determine the additional impact on the borough’s 2020 state aid allocation is attributable to an oversight.

Effect: The plan’s actuary prepared Supplemental Actuarial Information Form AG-MP-1 as of January 1, 2019, and it was determined that the borough received excess state aid in the amount of \$15,342 in 2020 attributable to the first survivor benefit, which the borough has returned to the Commonwealth. The plan’s actuary subsequently submitted revised figures for the Form AG-MP-1 as of January 1, 2019, to include the effect of the second survivor benefit, and it was determined that an additional \$4,621 of the borough’s 2020 state aid allocation was attributable to the second survivor benefit, for a total of \$19,963 of excess 2020 state aid.

BROCKWAY BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the unreturned excess 2020 state aid, in the amount of \$4,621, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, 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. A copy of the interest calculation must be submitted along with the check.

We also recommend that the impact of the excess benefits on the borough's annual state aid allocations continue to be determined in the future and any overpayment be reimbursed to the Commonwealth.

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

Auditor's Conclusion: A check in the amount of \$4,621 was received from the borough on December 15, 2020. The borough's full compliance with the recommendation will be evaluated during our next audit of the pension plan.

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, 2015, 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)
01-01-15	\$ 838,596	\$ 876,831	\$ 38,235	95.6%
01-01-17	798,769	863,062	64,293	92.6%
01-01-19	783,064	859,354	76,290	91.1%

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

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 24,692	\$ 24,692	\$ -	\$ 78,415	31.49%
2015	25,795	27,547	(1,752)	82,770	33.28%
2016	32,199	33,201	(1,002)	90,246	36.79%
2017	21,756	21,756	-	53,862	40.39%
2018	31,850	31,850	-	56,996	55.88%
2019	32,398	32,398	-	59,000	54.91%

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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 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
Governor
Commonwealth of Pennsylvania

The Honorable William Hrinia
Mayor

Mr. Chris Benson
Council President

Ms. Laura Wayne
Secretary

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.