

LIMITED PROCEDURES ENGAGEMENT

Carrolltown Borough Police Pension Plan Cambria County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

March 2019



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
Carrolltown Borough
Cambria County
Carrolltown, PA 15722

We conducted a Limited Procedures Engagement (LPE) of the Carrolltown Borough Police Pension Plan for the period January 1, 2014 to December 31, 2017 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.
- 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.

- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Carrolltown Borough Police 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 No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 2 – Incorrect Pension Benefit Calculation

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 Carrolltown 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.

February 19, 2019



EUGENE A. DEPASQUALE
Auditor General

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CARROLLTOWN BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

On April 17, 2014, the borough deposited \$8,397 into the plan for the 2013 MMO balance due and on July 14, 2014, the borough deposited \$601 into the plan interest due on the late MMO payment.

CARROLLTOWN BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The borough certified 1 ineligible police officer (2 units) and overstated payroll by \$31,757 on the Certification Form AG 385 filed in 2017. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough's state aid allocation was based on pension costs, the incorrect certification of pension data affected the borough's state aid allocation, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2017	19.85970%	\$ 31,757	\$ 6,307

In addition, the borough used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMO will not be fully paid.

Furthermore, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the total excess state aid, in the amount of \$6,307, plus interest, 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.

CARROLLTOWN BOROUGH POLICE PENSION PLAN FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

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

Auditor's Conclusion: The borough's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement of the plan.

Finding No. 2 – Incorrect Pension Benefit Calculation

Condition: The pension benefit of a member of the pension plan who retired on October 26, 2013 was incorrectly determined because municipal officials failed to accurately calculate the member's final monthly average salary in accordance with the plan's governing document. The member's compensation for the year 2012 utilized in the pension calculation was understated.

Criteria: Section 6.1 of the pension plan's governing document, adopted by Ordinance No. 260, states, in part:

Basic Benefit – The annual Basic Benefit shall be calculated by multiplying the Member's Final Salary....

In addition, Section 2.1 of the governing document states, in part:

“Final Salary” means the average annual Compensation earned and paid during the Member's final three (3) years of Credited Service....

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the accuracy of the compensation utilized in the pension benefit calculation.

Effect: The member is receiving a lesser benefit than what is authorized by the plan's governing document.

CARROLLTOWN BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that municipal officials adjust the retiree's pension benefit in accordance with the provisions contained in the plan's governing document.

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

CARROLLTOWN BOROUGH POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this report cites an overpayment of state aid to the borough in the amount of \$6,307, 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.

CARROLLTOWN BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 6 through 8 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	\$ 15,730	\$ 13,522
Interest	16,167	19,344
Difference between expected and actual experience	49,548	-
Changes of assumptions	-	(5,824)
Benefit payments, including refunds of member contributions	<u>(21,483)</u>	<u>(21,483)</u>
Net Change in Total Pension Liability	59,962	5,559
Total Pension Liability – Beginning	288,815	348,777
Total Pension Liability – Ending (a)	<u><u>\$ 348,777</u></u>	<u><u>\$ 354,336</u></u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 14,962	\$ 31,504
Contributions – PMRS assessment	-	60
PMRS investment income	13,036	13,563
Market value investment income	(921)	(17,765)
Benefit payments, including refunds of member contributions	(21,483)	(21,483)
PMRS administrative expense	(40)	(60)
Additional Administrative expense	<u>(500)</u>	<u>(565)</u>
Net Change in Plan Fiduciary Net Position	5,054	5,254
Plan Fiduciary Net Position – Beginning	245,278	250,332
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 250,332</u></u>	<u><u>\$ 255,586</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 98,445</u></u>	<u><u>\$ 98,750</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.77%	72.13%
Estimated Covered Employee Payroll	\$ 84,481	\$ 68,322
Net Pension Liability as a Percentage of Covered Employee Payroll	116.53%	144.54%

* 2014 employer contributions include \$601 interest paid for the late deposit of the 2013 minimum municipal obligation (MMO). 2015 employer contributions include \$15,748 deposited in error and corrected in 2017.

CARROLLTOWN BOROUGH POLICE 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	\$ 6,721	\$ 11,830
Interest	19,275	18,757
Difference between expected and actual experience	(13,533)	-
Changes of assumptions	10,735	-
Benefit payments, including refunds of member contributions	(21,483)	(21,483)
Net Change in Total Pension Liability	<u>1,715</u>	<u>9,104</u>
Total Pension Liability – Beginning	354,336	356,051
Total Pension Liability – Ending (a)	<u><u>\$ 356,051</u></u>	<u><u>\$ 365,155</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 21,634	\$ 20,183
Contributions – PMRS assessment	80	80
PMRS investment income	14,767	14,306
Market value investment income	10,769	33,898
Transfers	-	(15,748)
Benefit payments, including refunds of member contributions	(21,483)	(21,483)
PMRS administrative expense	(60)	(60)
Additional administrative expense	(723)	(658)
Net Change in Plan Fiduciary Net Position	<u>24,984</u>	<u>30,518</u>
Plan Fiduciary Net Position – Beginning	255,586	280,570
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 280,570</u></u>	<u><u>\$ 311,088</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 75,481</u></u>	<u><u>\$ 54,067</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.80%	85.19%
Estimated Covered Employee Payroll	\$ 39,534	\$ 66,370
Net Pension Liability as a Percentage of Covered Employee Payroll	190.93%	81.46%

CARROLLTOWN 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, 2014 and 2015, calculated using the discount rate of 5.50%, 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 (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability – 12/31/14	\$ 145,776	\$ 98,445	\$ 59,960
Net Pension Liability – 12/31/15	\$ 147,152	\$ 98,750	\$ 59,388

In addition, the following presents the net pension liability of the borough as of December 31, 2016 and 2017, calculated using the discount rate of 5.25%, 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 (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability – 12/31/16	\$ 124,534	\$ 75,481	\$ 35,616
Net Pension Liability – 12/31/17	\$ 104,374	\$ 54,067	\$ 13,183

CARROLLTOWN 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	\$ 232,286	\$ 262,486	\$ 30,200	88.5%
01-01-15	260,652	348,777	88,125	74.7%
01-01-17	310,289	356,051	45,762	87.1%

Note: On October 26, 2013, a plan member retired and \$324,987 was transferred from the plan's PMRS Municipal Reserve Account to the Retirement Reserve Account to fund the retirement annuity. This created a negative balance in the Municipal Reserve Account. At December 31, 2017, the plan had a negative balance of \$14,607.

CARROLLTOWN 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.

CARROLLTOWN 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
2013	\$ 12,922	100.0%
2014	14,361	100.0%
2015	15,816	100.0%
2016	15,747	137.9%
2017	19,104	106.1%

The Department typically presents this data for the past six consecutive fiscal years. Since six years of data were not yet available, this will be done prospectively.

Note: For plan years prior to 2013, the plan consisted of a paid up single-premium annuity for one plan member. Therefore, no contributions were required or made to the plan during those years.

CARROLLTOWN 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, closed
Remaining amortization period	14 years
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%)
Cost-of-living adjustments	2.8% per year, subject to plan limitations

CARROLLTOWN BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Commonwealth of Pennsylvania

The Honorable James R. Ertter, Jr.
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Mr. Luke Baker
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Ms. Bernetta Julick
Secretary

Ms. Charity Rosenberry
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