

# LIMITED PROCEDURES ENGAGEMENT

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## Charleroi Borough Non-Uniformed Pension Plan Washington County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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July 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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AUDITOR GENERAL

The Honorable Mayor and Borough Council  
Charleroi Borough  
Washington County  
Charleroi, PA 15022

We conducted a Limited Procedures Engagement (LPE) of the Charleroi Borough Non-Uniformed 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 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 annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.

- Whether retirement benefits calculated for plan members who retired during the engagement 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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 Charleroi 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 finding further discussed later in this report:

#### Finding - Failure To Timely Pay The Minimum Municipal Obligation Of The Plan

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 Charleroi 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.

July 2, 2018



EUGENE A. DEPASQUALE  
Auditor General

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CHARLEROI BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan**

Condition: The borough did not timely pay the balances due on the 2015 and 2016 minimum municipal obligations (MMOs) that were due to the non-uniformed pension plan by December 31, 2015 and December 31, 2016, respectively, as required by Act 205. The municipality deposited \$17,381 into the plan on December 21, 2017 to pay the balance due for the 2015 MMO, and deposited \$18,982 into the plan on March 3, 2017 to pay the balance due for the 2016 MMO; however, the borough failed to pay the interest due on the late deposits for the 2015 and 2016 MMOs in accordance with Act 205 requirements.

Criteria: Section 302(e) of Act 205 states:

Interest penalty on omitted municipal contributions. Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Municipal officials failed to establish adequate procedures to ensure that the MMOs due were paid timely and that the interest due on the late payments was determined and paid in accordance with Act 205 requirements.

Effect: The plan is not being adequately compensated for the municipality's failure to pay the MMO timely in accordance with Act 205 requirements.

Recommendation: We recommend that the borough pay the interest due to the non-uniformed pension plan for the untimely payments of the 2015 and 2016 MMOs in accordance with Section 302(e) of Act 205. A copy of the interest calculations must be maintained by the borough for examination during our next engagement of the plan.

Furthermore, we recommend that plan officials establish and implement adequate internal control procedures to ensure that future MMOs are paid timely in accordance with Act 205 requirements.

CHARLEROI BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Management's Response: Municipal officials agreed with the finding without exception. On June 12, 2018, municipal officials paid \$3,028 for the interest due on the 2015 MMO; however, as of the date of this report, interest due on the 2016 MMO has not been paid.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next engagement of the plan.

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

The supplementary information contained on Pages 3 and 4 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 24,282	\$ 19,477	\$ 18,431
Interest	68,149	75,069	75,181
Difference between expected and actual experience	120,091	-	(632)
Changes of assumptions	-	(2,217)	34,767
Benefit payments, including refunds of member contributions	(74,741)	(89,254)	(89,254)
Net Change in Total Pension Liability	137,781	3,075	38,493
Total Pension Liability – Beginning	1,251,662	1,389,443	1,392,518
Total Pension Liability - Ending (a)	<u>\$ 1,389,443</u>	<u>\$ 1,392,518</u>	<u>\$ 1,431,011</u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 49,888	\$ 32,894	\$ 66,707
Contributions – PMRS assessment	-	280	280
Contributions – member	20,070	15,975	16,349
PMRS investment income	69,258	67,826	70,069
Market value investment income	3,382	(56,114)	50,246
Benefit payments, including refunds of member contributions	(74,741)	(89,254)	(89,254)
PMRS administrative expense	(280)	(280)	(280)
Additional Administrative Expenses	(2,656)	(2,828)	(3,433)
Net Change in Plan Fiduciary Net Position	64,921	(31,501)	110,684
Plan Fiduciary Net Position – Beginning	1,178,113	1,243,034	1,211,533
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,243,034</u>	<u>\$ 1,211,533</u>	<u>\$ 1,322,217</u>
Net Pension Liability - Ending (a-b)	<u>\$ 146,409</u>	<u>\$ 180,985</u>	<u>\$ 108,794</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.46%	87.00%	92.40%
Estimated Covered Employee Payroll	\$ 273,117	\$ 228,212	\$ 233,560
Net Pension Liability as a Percentage of Covered Employee Payroll	53.61%	79.31%	46.58%

\* 2015 Employer contributions excludes \$17,382 balance of the 2015 MMO that was deposited December 21, 2017, but reflected in 2016 Employer contributions above.

CHARLEROI 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 5.50%, 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	\$ 296,238	\$ 146,409	\$ 18,106
Net Pension Liability - 12/31/15	\$ 331,993	\$ 180,985	\$ 51,588

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, 2016 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	\$ 253,907	\$ 108,794	\$ (16,001)



CHARLEROI 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	\$ 1,135,545	\$ 1,233,271	\$ 97,726	92.1%
01-01-15	1,280,412	1,389,443	109,031	92.2%
01-01-17	1,434,031	1,431,011	(3,020)	100.2%

CHARLEROI 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.

CHARLEROI 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	\$ 45,696	100.0%
2013	45,552	100.1%
2014	45,645	109.3%
2015	50,556	100.0%
2016	49,605	100.0%
2017	59,819	100.0%

CHARLEROI BOROUGH NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (UNAUDITED)

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	5.25%, net of expenses
Projected salary increases *	2.80% - 7.05 %
Cost-of-living adjustments	N/A

\* Includes inflation at 2.80%

CHARLEROI BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
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**The Honorable Edward Bryner**  
Mayor

**Mr. Jerry Jericho**  
Council President

**Ms. Roberta S. Doerfler**  
Borough Secretary

**Ms. Charity Rosenberry, CPA**  
Pennsylvania Municipal Retirement System

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