

LIMITED PROCEDURES ENGAGEMENT

Coaldale Borough Non-Uniformed Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

February 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
Coaldale Borough
Schuylkill County
Coaldale, PA 18218

We conducted a Limited Procedures Engagement (LPE) of the Coaldale 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, 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, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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 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 this report 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 Coaldale 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 No. 1 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund 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 Coaldale Borough and, where appropriate, their responses have been included in this report.

January 31, 2019



EUGENE A. DEPASQUALE
Auditor General

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COALDALE BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Condition: The borough allocated state aid in excess of the non-uniformed pension plan's pension costs in the years 2014 and 2015, as illustrated below:

	<u>2014</u>	<u>2015</u>
Actual municipal pension costs	(1,485)	(1,530)
Less: Forfeitures available	<u>1,485</u>	<u>1,530</u>
Adjusted municipal pension costs	-	-
State aid allocation	<u>1,298</u>	<u>1,445</u>
Excess state aid	<u>\$ 1,298</u>	<u>\$ 1,445</u>

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 13 of the plan agreement and Resolution No, 2016-7 indicates that the municipal contribution rate will be 3.0% states:

The Borough will contribute quarterly three percent (3%) of each member's compensation to the System

Furthermore, Section 14 of the plan agreement states:

In the event a member's service with the Borough is terminated for any reason whatsoever before the funds set aside for such member are vested or if the member elects not to receive a benefit, then the amount of such funds which have not been contributed by the member and which are not vested shall be credited against the next contribution due from the Borough for the remaining or future members of this Plan.

COALDALE BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to annually reconcile the borough's state aid allocation along with terminated-employees' forfeitures available to reduce municipal contributions with the plan's 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 2015 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$2,743 of excess state aid received in the years 2014 and 2015 to the Commonwealth from the non-uniformed pension plan. 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 and municipal contributions made to the pension plan and any available employee forfeitures with the plan's annual 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: The borough's compliance with the finding recommendation will be monitored subsequent to the release of the LPE report and through our next plan engagement.

COALDALE BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The borough made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Actual municipal pension Costs	\$ 1,485	\$ 1,530	\$ 2,505	\$ 2,982	\$ 8,502
Forfeitures available	<u>(1,485)</u>	<u>(1,530)</u>	<u>(2,505)</u>	<u>(1,816)</u>	<u>(7,336)</u>
Adjusted actual municipal pension costs	-	-	-	1,166	1,166
State aid allocated (see Finding No. 1)	<u>(1,298)</u>	<u>(1,445)</u>	<u>-</u>	<u>-</u>	<u>(2,743)</u>
Excess state aid allocated	<u>\$ 1,298</u>	<u>\$ 1,445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,743</u>
Actual municipal contributions made	\$ 178	\$ 152	\$ 1,460	\$ 1,439	\$ 3,229
Municipal contributions required to fund plan	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,166)</u>	<u>(1,166)</u>
Excess municipal Contributions	<u>\$ 178</u>	<u>\$ 152</u>	<u>\$ 1,460</u>	<u>\$ 273</u>	<u>\$ 2,063</u>

Criteria: Section 9.1 (a) of the governing document states, in part:

The Municipality shall contribute 2.5% of each Member's compensation.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

COALDALE BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: The borough did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan's governing document.

Effect: As a result of the borough making contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, overall municipal reserve funds increased by \$2,063 during the period. As of December 31, 2018, the municipal reserve fund balance totaled \$6,222.

It is the opinion of this department that the borough's failure to withdraw excess municipal contributions made in prior years does not preclude the borough from withdrawing the municipal contributions maintained in the unallocated reserve fund at this time.

Recommendation: We recommend that the borough liquidate the unallocated reserve fund maintained by the non-uniformed pension plan by transferring the assets which represent non-state aid funds to the borough's general fund. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs. If future terminated-employee forfeitures become available, plan officials should consult with PMRS to determine whether additional municipal contributions are needed to meet the plan's funding requirements.

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

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

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

The supplementary information contained on Pages 5 through 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 YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 6,198	\$ 6,706
Interest	3,295	3,821
Difference between expected and actual experience	-	1
Net Change in Total Pension Liability	9,493	10,528
Total Pension Liability – Beginning	56,954	66,447
Total Pension Liability – Ending (a)	<u>\$ 66,447</u>	<u>\$ 76,975</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 648	\$ 1,392
Contributions – PMRS assessment	-	40
Contributions – member	4,722	5,109
Net investment income	3,714	4,195
Market value investment income	(270)	(4,878)
Administrative expense	(40)	(40)
Additional Administrative expense	(142)	(175)
Net Change in Plan Fiduciary Net Position	8,632	5,643
Plan Fiduciary Net Position – Beginning	64,620	73,252
Plan Fiduciary Net Position – Ending (b)	<u>\$ 73,252</u>	<u>\$ 78,895</u>
Net Pension Liability – Ending (a-b)	<u>\$ (6,805)</u>	<u>\$ (1,920)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	110.24%	102.49%
Estimated Covered Employee Payroll	\$ 53,662	\$ 59,608
Net Pension Liability as a Percentage of Covered Employee Payroll	(12.68%)	(3.22%)

* 2014 employer contributions do not include \$828 transferred from municipal reserve.

* 2015 employer contributions do not include \$165 transferred from municipal reserve.

COALDALE BOROUGH NON-UNIFORMED 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	\$ 5,352	\$ 9,236
Interest	4,353	4,770
Changes of assumptions	(1)	-
Net Change in Total Pension Liability	<u>9,704</u>	<u>14,006</u>
Total Pension Liability – Beginning	<u>76,975</u>	<u>86,679</u>
Total Pension Liability – Ending (a)	<u><u>\$ 86,679</u></u>	<u><u>\$ 100,685</u></u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 1,531	\$ 394
Contributions – PMRS assessment	40	40
Contributions – member	3,892	6,254
Net investment income	4,766	5,085
Market value investment income	1,595	11,236
Administrative expense	(40)	(40)
Additional Administrative expense	(233)	(234)
Net Change in Plan Fiduciary Net Position	<u>11,551</u>	<u>22,735</u>
Plan Fiduciary Net Position – Beginning	<u>78,895</u>	<u>90,446</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 90,446</u></u>	<u><u>\$ 113,181</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ (3,767)</u></u>	<u><u>\$ (12,496)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	104.35%	112.41%
Estimated Covered Employee Payroll	\$ 48,652	\$ 99,398
Net Pension Liability as a Percentage of Covered Employee Payroll	(7.74%)	(12.57%)

* 2016 employer contributions include \$111 transferred from municipal reserve.

* 2017 employer contributions do not include \$1,005 transferred from municipal reserve.

COALDALE 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%)
Net Pension Liability – 12/31/14	\$ 6,485	\$ (6,805)	\$ (20,094)
Net Pension Liability – 12/31/15	\$ 13,475	\$ (1,920)	\$ (17,315)

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	\$ 13,569	\$ (3,767)	\$ (21,103)
Net Pension Liability – 12/31/17	\$ 7,641	\$ (12,496)	\$ (32,633)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 1,543	\$ 60
2013	None	1,353
2014	1,298	178
2015	1,445	152
2016	None	1,460
2017	None	1,439

Note: In 2014, the borough met the plan's \$1,485 funding requirement through allocation of \$1,485 in terminated employee forfeitures. The borough also deposited state aid in the amount of \$1,298 (see Finding No. 1) and \$178 in municipal contributions (see Finding No. 2) in excess of pension plan costs.

In 2015, the borough met the plan's \$1,530 funding requirement through allocation of \$1,530 in terminated employee forfeitures. The borough also deposited state aid in the amount of \$1,445 (see Finding No. 1) and \$152 in municipal contributions (see Finding No. 2) in excess of pension plan costs.

In 2016, the borough met the plan's \$2,505 funding requirement through the allocation of \$2,505 in terminated employee forfeitures. The borough also deposited municipal contributions in the amount of \$1,460 in excess of pension plan costs (see Finding No. 2).

In 2017, the borough met the plan's \$2,982 funding requirement through the allocation of \$1,816 in terminated employee forfeitures and \$1,439 in municipal contributions which exceeded amounts necessary to properly fund the plan (see Finding No. 2).

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This report was initially distributed to the following:

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