

LIMITED PROCEDURES ENGAGEMENT

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

September 2018



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
Conneautville Borough
Crawford County
Conneautville, PA 16406

We conducted a Limited Procedures Engagement (LPE) of the Conneautville 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 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. 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 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 Conneautville 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 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement

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 Conneautville 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.



EUGENE A. DEPASQUALE
Auditor General

September 7, 2018

CONTENTS

	<u>Page</u>
Status of Prior Finding	1
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement.....	2
Supplementary Information	4
Summary of Deposited State Aid and Employer Contributions.....	6
Report Distribution List	7

CONNEAUTVILLE BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

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

· Receipt Of State Aid In Excess Of Entitlement

During the current engagement period, the borough reimbursed \$691 to the Commonwealth for the overpayments of state aid received in 2011 and 2013. However, plan officials again failed to reconcile the amount of state aid allocated to the pension plan with the plan's actual defined contribution pension costs in 2014 and 2016, as further discussed in the Finding and Recommendation section of this report.

CONNEAUTVILLE BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement

Condition: As disclosed in the Status of Prior Finding section of this report, the borough partially complied with the prior recommendation by reimbursing the Commonwealth for the overpayments of state aid received in 2011 and 2013. However, a similar condition occurred during the current period. Plan officials again failed to reconcile the annual state aid allocation with the plan’s annual pension costs and reimburse any excess state aid received to the Commonwealth for the years 2014 and 2016, as illustrated below:

	<u>2014</u>	<u>2016</u>
State aid allocation	\$ 6,372	\$ 6,780
Actual municipal pension costs	(5,103)	(4,863)
Excess state aid	\$ 1,269	\$ 1,917

Criteria: As previously disclosed, 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.

Cause: Plan officials again failed to implement adequate internal control procedures to reconcile the borough’s annual state aid allocation 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 2016 must be returned to the Commonwealth for redistribution.

CONNEAUTVILLE BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the municipality return the \$3,186 of excess state aid received in the years 2014 and 2016 to the Commonwealth from the 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 again recommend that, in the future, plan officials reconcile the borough's annual state aid allocation 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 report and through our next engagement of the pension plan.

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

The supplementary information contained on Pages 4 and 5 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	\$ 9,622	\$ 12,776	\$ 8,542
Interest	25,770	25,852	16,101
Difference between expected and actual experience	(27,870)	(75,722)	800
Changes of assumptions	-	1,300	3,130
Benefit payments, including refunds of member contributions	(9,606)	(136,490)	(11,174)
Net Change in Total Pension Liability	<u>(2,084)</u>	<u>(172,284)</u>	<u>17,399</u>
Total Pension Liability – Beginning	469,674	467,590	295,306
Total Pension Liability - Ending (a)	<u>\$ 467,590</u>	<u>\$ 295,306</u>	<u>\$ 312,705</u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 6,015	\$ 5,423	\$ 6,720
Contributions – PMRS assessment	-	60	60
Contributions – employee	4,579	5,996	3,654
PMRS investment income	25,698	25,828	15,906
Market value investment income	(28,507)	(89,900)	8,193
Benefit payments, including refunds of member contributions	(9,606)	(136,490)	(11,174)
PMRS administrative expense	(60)	(80)	(60)
Additional administrative expense	(986)	(1,077)	(779)
Net Change in Plan Fiduciary Net Position	<u>(2,867)</u>	<u>(190,240)</u>	<u>22,520</u>
Plan Fiduciary Net Position - Beginning	463,275	460,408	270,168
Plan Fiduciary Net Position - Ending (b)	<u>\$ 460,408</u>	<u>\$ 270,168</u>	<u>\$ 292,688</u>
Net Pension Liability - Ending (a-b)	<u>\$ 7,182</u>	<u>\$ 25,138</u>	<u>\$ 20,017</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.46%	91.49%	93.60%
Estimated Covered Employee Payroll	\$ 63,040	\$ 84,749	\$ 61,108
Net Pension Liability as a Percentage of Covered Employee Payroll	11.39%	29.66%	32.76%

* 2014 employer contribution does not include \$60 administrative expense, \$73 municipal reserve deposit, and \$223 return of excess state aid for the year 2013. The 2015 employer contributions does not include \$60 administrative expense, \$664 municipal reserve deposit, and \$693 refund of excess state aid for the year 2011 and 2013. The 2016 employer contribution does not include \$60 administrative expense.

CONNEAUTVILLE 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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability - 12/31/14	\$ 89,126	\$ 7,182	\$ (74,090)
Net Pension Liability - 12/31/15	\$ 69,834	\$ 25,138	\$ (17,542)

In addition, 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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability- 12/31/16	\$ 68,037	\$ 20,017	\$ (26,027)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 6,105	\$ 665
2013	6,432	283
2014	6,372	None
2015	5,043	\$ 1,797
2016	6,780	None
2017	4,803	None

CONNEAUTVILLE BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Allen Clark
Mayor

Mr. Tim Prince
Council President

Ms. Joyce A. McMillin
Secretary

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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