

LIMITED PROCEDURES ENGAGEMENT

Curwensville Borough Police Pension Plan Clearfield County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

February 2020



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
Curwensville Borough
Clearfield County
Curwensville, PA 16833

We conducted a Limited Procedures Engagement (LPE) of the Curwensville Borough Police Pension Plan for the period January 1, 2016 to December 31, 2018 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, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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 Curwensville 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 finding further discussed later in this report:

Finding - Pension Benefits Not In Compliance With Act 600 Provisions

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 Curwensville 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.

January 30, 2020



EUGENE A. DEPASQUALE
Auditor General

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CURWENSVILLE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Pension Benefits Not In Compliance With Act 600 Provisions

Condition: On August 15, 2018, the borough hired its third full-time police officer. While a municipality that employs fewer than three full-time police officers may elect to establish a police pension plan pursuant to Act 600, upon hiring a third full-time police officer, the municipality must ensure the plan is established pursuant to Act 600 provisions. However, if police officers were given rights prior to the hiring of a third full-time police officer under their existing pension plan that differ from Act 600, the fact that a new plan is adopted because of the growth of the police department cannot in any way effect their existing benefits, and they are in effect “grandfathered” for purposes of age and service for retirement purposes. Since the pension plan’s governing document, Ordinance No. 471, was not adopted pursuant to Act 600, it contains benefit provisions that are not in compliance with Act 600. Furthermore, the collective bargaining agreement between the borough and its police officers for the period January 1, 2017 to December 31, 2019 contains provisions that are not in compliance with Act 600. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document and Collective Bargaining Agreement</u>	<u>Act 600</u>
Normal retirement age	None	A normal retirement age of 55, or 50, if supported by an actuarial cost study.
Monthly pension benefit	75% of the Participant’s Average Monthly Compensation	A monthly pension benefit equal to 50 percent of the member’s average monthly salary during not more than the last 60 nor less than the last 36 months of employment.

Criteria: Since the borough employs three full-time police officers, the plan’s governing document and collective bargaining agreement should be in compliance with Act 600, as amended.

Cause: Municipal officials were unaware that the governing plan documents were not in compliance with Act 600.

Effect: Maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

CURWENSVILLE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

Recommendation: We recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the police pension plan's benefit structure into compliance with Act 600 at their earliest opportunity to do so. The borough must also ensure that the existing benefits of the two police officers who were previously hired are not in any way diminished.

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.

CURWENSVILLE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 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, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 29,963	\$ 24,090	\$ 25,295	\$ 10,368	\$ 10,886
Interest	41,289	44,550	47,516	51,651	51,241
Difference between expected and actual experience	-	(39,598)	-	48,512	-
Changes of assumptions	-	(101,881)	-	-	-
Benefit payments, including refunds of member contributions	(27,733)	(27,243)	(30,639)	(68,092)	(68,288)
Net Change in Total Pension Liability	<u>43,519</u>	<u>(100,082)</u>	<u>42,172</u>	<u>42,439</u>	<u>(6,161)</u>
Total Pension Liability - Beginning	701,978	745,497	645,415	687,587	730,026
Total Pension Liability - Ending (a)	<u>\$ 745,497</u>	<u>\$ 645,415</u>	<u>\$ 687,587</u>	<u>\$ 730,026</u>	<u>\$ 723,865</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ -	\$ 23,671	\$ 6,290	\$ 944	\$ 9,154
Contributions - state aid	1,270	15,683	17,499	18,353	9,369
Contributions - member	-	-	22,749	-	-
Net investment income	42,080	(4,735)	32,440	94,337	(34,760)
Benefit payments, including refunds of member contributions	(27,733)	(27,243)	(30,639)	(68,092)	(68,288)
Administrative expense	(10,821)	(9,673)	(7,249)	(10,021)	(7,132)
Net Change in Plan Fiduciary Net Position	<u>4,796</u>	<u>(2,297)</u>	<u>41,090</u>	<u>35,521</u>	<u>(91,657)</u>
Plan Fiduciary Net Position - Beginning	699,051	703,847	701,550	742,640	778,161
Plan Fiduciary Net Position - Ending (b)	<u>\$ 703,847</u>	<u>\$ 701,550</u>	<u>\$ 742,640</u>	<u>\$ 778,161</u>	<u>\$ 686,504</u>
Net Pension Liability - Ending (a-b)	<u>\$ 41,650</u>	<u>\$ (56,135)</u>	<u>\$ (55,053)</u>	<u>\$ (48,135)</u>	<u>\$ 37,361</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.4%	108.7%	108.0%	106.6%	94.8%
Estimated Covered Employee Payroll	N/A	\$ 97,900	\$ 97,478	\$ 80,000	\$ 45,000
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	-57.3%	-56.5%	-60.2%	83.0%

CURWENSVILLE 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 5.75%, 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 (4.75%)</u>	<u>Current Discount Rate (5.75%)</u>	<u>1% Increase (6.75%)</u>
Net Pension Liability - 12/31/14	\$ 130,996	\$ 41,650	\$ (32,722)
Net Pension Liability - 12/31/15	\$ 13,073	\$ (56,135)	\$ (114,538)

In addition, the following presents the net pension liability of the borough as of December 31, 2016, 2017, and 2018, calculated using the discount rate of 7.25%, 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 (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Net Pension Liability - 12/31/16	\$ 18,648	\$ (55,053)	\$ (117,101)
Net Pension Liability - 12/31/17	\$ 22,539	\$ (48,135)	\$ (108,140)
Net Pension Liability - 12/31/18	\$ 108,081	\$ 37,361	\$ (22,726)

CURWENSVILLE BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	N/A	\$ 1,270	\$ (1,270)	N/A	N/A
2015	\$ 39,354	\$ 39,354	\$ -	\$ 97,900	40.20%
2016	\$ 23,789	\$ 23,789	\$ -	\$ 97,478	24.40%
2017	\$ 19,297	\$ 19,297	\$ -	\$ 80,000	24.12%
2018	\$ 18,523	\$ 18,523	\$ -	\$ 45,000	41.16%

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	-4.47%
2017	12.70%
2016	4.62%
2015	-0.69%
2014	6.15%

CURWENSVILLE 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	\$ 731,666	\$ 660,246	\$ (71,420)	110.8%
01-01-15	703,847	604,018	(99,829)	116.5%
01-01-17	742,640	736,099	(6,541)	100.9%

CURWENSVILLE 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.

CURWENSVILLE 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	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0%

CURWENSVILLE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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