COMPLIANCE AUDIT

Darby Borough
Non-Uniformed Pension Plan
Delaware County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2018

January 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
Darby Borough
Delaware County
Darby, PA 19023

We have conducted a compliance audit of the Darby Borough Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and

2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined 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 period under audit.

- We determined 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.

- We determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.

- We determined that there were no benefit calculations prepared for the years covered by our audit period.

- We determined 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Darby Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the Darby Borough Non-Uniformed Pension Plan was 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 – Untimely Deposit Of State Aid

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 Darby Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

December 24, 2019

EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). 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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Darby Borough Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Darby Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 712B. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established January 1, 1970. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 4 active members, 4 terminated members eligible for vested benefits in the future, and 8 retirees receiving pension benefits.

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 65
Early Retirement	Age 55 with 10 years of service.
Vesting	20% vesting is available after 3 years of service plus 20% per year thereafter, up to 100%.

Retirement Benefit:

Benefit equals 1.5% of average compensation multiplied by the number of years of service. Average compensation is based on the last 5 years of compensation.

Survivor Benefit:

Actuarial equivalent options.

Disability Benefit:

Monthly annuity equal to the accrued benefit on the date of disability with a minimum of $20.

DARBY BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Failure To Timely And Fully Pay The Minimum Obligation Of The Plan

  Municipal officials paid the interest due to the non-uniformed pension plan for the late payment of the 2011 MMO in accordance with Section 302e of Act 205 and also paid the outstanding MMOs due to the non-uniformed pension plan for the years 2013 and 2014, with interest, in accordance with Section 302e of Act 205.

Finding – Untimely Deposit Of State Aid

Condition: During the current audit period *(and as disclosed in the prior audit report of the borough's police pension plan)*, the municipality did not deposit its annual state aid allocations into its pension plans within 30 days of receipt in accordance with Act 205. The state aid for 2016, received on September 27, 2016, was not deposited into the pension plan until November 1, 2016, the state aid for 2017, received on September 27, 2017, was not deposited until November 15, 2017, and the state aid for 2018, received on September 20, 2018, was not deposited until November 2, 2018 which is not in compliance with Act 205. Similarly, subsequent to the current audit period, the state aid for 2019, received on September 18, 2019, was not deposited into the plan until November 8, 2019.

Criteria: Section 402(g) of Act 205 states, in part:

> . . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the respective pension plan.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the state aid allocations were deposited timely into its pension plans in accordance with Act 205.

Effect: Although the state aid was eventually deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality deposit the interest earned during the period beyond the 30 day grace period allowed by Act 205 into the pension plan. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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

Auditor's Conclusion: Compliance with finding will be evaluated during our next audit of the pension plan.

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

The supplementary information contained on pages 5 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

	2014	2015
Total Pension Liability		
Service cost	$ 12,485	$ 17,349
Interest	70,295	72,506
Difference between expected and actual experience	-	38,417
Changes of assumptions	-	34,282
Benefit payments, including refunds of member contributions	(168,936)	(94,694)
Net Change in Total Pension Liability	(86,156)	67,860
Total Pension Liability – Beginning	979,014	892,858
Total Pension Liability – Ending (a)	$ 892,858	$ 960,718
Plan Fiduciary Net Position		
Contributions – Employer	$ 32,982	$ 28,223
Net investment income	54,838	6,400
Benefit payments, including refunds of member contributions	(168,936)	(94,694)
Administrative expense	(4,600)	(8,900)
Net Change in Plan Fiduciary Net Position	(85,716)	(68,971)
Plan Fiduciary Net Position – Beginning	793,051	707,335
Plan Fiduciary Net Position – Ending (b)	$ 707,335	$ 638,364
Net Pension Liability – Ending (a-b)	$ 185,523	$ 322,354
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.2%	66.4%
Estimated Covered Employee Payroll	$ 163,330	$ 99,010
Net Pension Liability as a Percentage of Covered Employee Payroll	113.6%	325.6%

DARBY 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, 2017, AND 2018

	2016	2017	2018
Total Pension Liability			
Service cost	$ 18,216	$ 16,803	$ 17,643
Interest	72,685	70,646	71,559
Difference between expected and actual experience	-	(40,090)	-
Changes of assumptions	-	4,347	-
Benefit payments, including refunds of member contributions	(82,129)	(77,965)	(75,066)
Net Change in Total Pension Liability	8,772	(26,259)	14,136
Total Pension Liability – Beginning	960,718	969,490	943,231
Total Pension Liability – Ending (a)	$ 969,490	$ 943,231	$ 957,367
Plan Fiduciary Net Position			
Contributions – State Aid	$ 41,163	$ 47,604	$ 52,603
Net investment income	45,198	97,713	(43,622)
Benefit payments, including refunds of member contributions	(82,129)	(77,965)	(75,066)
Administrative expense	(5,900)	(9,800)	(5,900)
Net Change in Plan Fiduciary Net Position	(1,668)	57,552	(71,985)
Plan Fiduciary Net Position – Beginning	638,364	636,696	694,248
Plan Fiduciary Net Position – Ending (b)	$ 636,696	$ 694,248	$ 622,263
Net Pension Liability – Ending (a-b)	$ 332,794	$ 248,983	$ 335,104
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	65.7%	73.6%	65.0%
Estimated Covered Employee Payroll	$ 177,982	$ 182,564	$ 183,926
Net Pension Liability as a Percentage of Covered Employee Payroll	187.0%	136.4%	182.2%

DARBY 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, 2015, 2016, 2017 and 2018, calculated using the discount rate of 7.75%, 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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability – 12/31/15	$ 410,470	$ 322,354	$ 244,948
Net Pension Liability – 12/31/16	$ 421,382	$ 332,794	$ 254,815
Net Pension Liability – 12/31/17	$ 331,688	$ 248,983	$ 176,010
Net Pension Liability – 12/31/18	$ 417,942	$ 335,104	$ 261,907

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	$ 32,982	$ 32,982	$ -	$ 163,330	20.19%
2015	28,223	28,223	-	99,010	28.51%
2016	41,163	41,163	-	177,982	23.13%
2017	47,604	47,604	-	182,564	26.08%
2018	52,603	52,603	-	183,926	28.60%

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

SCHEDULE OF INVESTMENT RETURNS

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

2018	(6.66%)
2017	16.51%
2016	7.81%
2015	(0.77%)
2014	7.41%

DARBY 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	$ 859,536	$ 952,618	$ 93,082	90.2%
01-01-15	792,807	965,557	172,750	82.1%
01-01-17	764,035	933,747	169,712	81.8%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses at 120 percent of market value. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

DARBY 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.

DARBY BOROUGH NON-UNIFORMED 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
Remaining amortization period	8 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed.

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This report was initially distributed to the following:

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