

LIMITED PROCEDURES ENGAGEMENT

Deemston Borough Non-Uniformed Pension Plan Washington County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

December 2017



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
Deemston Borough
Washington County
Fredericktown, PA 15333

We conducted a Limited Procedures Engagement (LPE) of the Deemston Borough Non-Uniformed Pension Plan for the period January 1, 2013 to December 31, 2016 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, 2011 to December 31, 2016, 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, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, 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 Deemston 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 – 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 Deemston 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.

December 11, 2017



EUGENE A. DEPASQUALE
Auditor General

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DEEMSTON BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Receipt Of State Aid In Excess Of Entitlement

Condition: The borough received state aid in excess of the pension plan’s annual pension costs in the year 2014, as illustrated below:

State aid allocation	\$ 3,011
Actual municipal pension costs	<u>(2,760)</u>
Excess state aid	<u><u>\$ 251</u></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.

Cause: Plan officials were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual annual pension costs and reimburse the difference to the Commonwealth.

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 year 2014 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$251 of excess state aid received in the year 2014 to the Commonwealth from the borough’s general fund. 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.

DEEMSTON BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Continued)

Furthermore, we recommend that plan officials reconcile the amount of state aid and municipal contributions allocated to the pension plan with the plan's annual pension costs and reimburse any excess state aid 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.

DEEMSTON 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 2,700	\$ 7,200
Interest	887	1,168
Difference between expected and actual experience	7	9
Changes of assumptions	-	8
Benefit payments, including refunds of member contributions	(154)	(154)
Net Change in Total Pension Liability	<u>3,440</u>	<u>8,231</u>
Total Pension Liability - Beginning	15,187	18,627
Total Pension Liability - Ending (a)	<u>\$ 18,627</u>	<u>\$ 26,858</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 2,760	\$ 7,119
Contributions - PMRS assessment	-	60
PMRS investment income	904	1,216
Market value investment income	(76)	(1,610)
Benefit payments, including refunds of member contributions	(154)	(154)
PMRS administrative expense	(60)	(60)
Additional administrative expense	(35)	(51)
Net Change in Plan Fiduciary Net Position	<u>3,339</u>	<u>6,520</u>
Plan Fiduciary Net Position - Beginning	15,019	18,358
Plan Fiduciary Net Position - Ending (b)	<u>\$ 18,358</u>	<u>\$ 24,878</u>
Net Pension Liability - Ending (a-b)	<u>\$ 269</u>	<u>\$ 1,980</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.56%	92.63%
Estimated Covered Employee Payroll	\$ 74,385	\$ 71,837
Net Pension Liability as a Percentage of Covered Employee Payroll	0.36%	2.76%

DEEMSTON 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%)
	<hr/>	<hr/>	<hr/>
Net Pension Liability - 12/31/14	\$ 3,800	\$ 269	\$ (3,231)
Net Pension Liability - 12/31/15	\$ 7,157	\$ 1,980	\$ (3,168)

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

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 1,419	\$ 1,221
2012	1,354	1,376
2013	1,382	1,357
2014	2,760	None
2015	3,081	4,098
2016	6,792	7,668

DEEMSTON 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 Paul T. Keruskin
Mayor

Mr. Terry Hunt
Council President

Ms. Denise J. Stish
Secretary/Treasurer

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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