

# COMPLIANCE AUDIT

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## East Stroudsburg Borough Non-Uniformed Cash Balance Pension Plan

Monroe County, Pennsylvania  
For the Period  
January 1, 2016 to December 31, 2017

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November 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  
East Stroudsburg Borough  
Monroe County  
East Stroudsburg, PA 18301

We have conducted a compliance audit of the East Stroudsburg Borough Non-Uniformed Cash Balance Pension Plan for the period January 1, 2016 to December 31, 2017. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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. 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.

- 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. 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.
- 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.
- We determined whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

The East Stroudsburg Borough Non-Uniformed Cash Balance Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the East Stroudsburg Borough Non-Uniformed Cash Balance 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 objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the East Stroudsburg Borough Non-Uniformed Cash Balance Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 East Stroudsburg 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.

November 5, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

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 East Stroudsburg Borough Non-Uniformed Cash Balance 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 including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974  
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The East Stroudsburg Borough Non-Uniformed Cash Balance Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 1258, adopted pursuant to Act 15, for employees hired on or after July 1, 2012,. The plan was established January 1, 1962. Active members are not required to contribute to the plan. The municipality is required to contribute 6 percent of compensation. As of December 31, 2017, the plan had 13 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

EAST STROUDSBURG BOROUGH NON-UNIFORMED CASH BALANCE  
PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 2 and 3 reflect 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	\$ 8,272	\$ 11,827	\$ 14,911
Interest	503	1,094	1,810
Difference between expected and actual experience	-	-	(1,153)
Net Change in Total Pension Liability	<u>8,775</u>	<u>12,921</u>	<u>15,568</u>
Total Pension Liability – Beginning	6,720	15,495	28,416
Total Pension Liability – Ending (a)	<u>\$ 15,495</u>	<u>\$ 28,416</u>	<u>\$ 43,984</u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 8,352	\$ 11,827	\$ 14,911
Contributions – PMRS assessment	-	100	140
PMRS investment income	518	1,136	1,750
Market value investment income	(133)	(1,779)	(178)
PMRS administrative expense	(80)	(100)	(80)
Additional administrative expense	(20)	(47)	(86)
Net Change in Plan Fiduciary Net Position	<u>8,637</u>	<u>11,137</u>	<u>16,457</u>
Plan Fiduciary Net Position – Beginning	6,653	15,290	26,427
Plan Fiduciary Net Position – Ending (b)	<u>\$ 15,290</u>	<u>\$ 26,427</u>	<u>\$ 42,884</u>
Net Pension Liability – Ending (a-b)	<u>\$ 205</u>	<u>\$ 1,989</u>	<u>\$ 1,100</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.68%	93.00%	97.50%
Estimated Covered Employee Payroll	\$ 137,840	\$ 197,118	\$ 248,513
Net Pension Liability as a Percentage of Covered Employee Payroll	0.15%	1.01%	0.44%

\* 2014 employer contributions does not include \$101 that was deposited in 2015. In addition, 2016 employer contributions includes actuarial surplus used for administrative expenses of \$20.

EAST STROUDSBURG BOROUGH NON-UNIFORMED CASH BALANCE  
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, 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:

	1% Decrease 4.25%	Current Discount Rate 5.25%	1% Increase 6.25%
Net Pension Liability- 12/31/16	\$ 9,896	\$ 1,100	\$ (7,697)

In addition, 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:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability - 12/31/14	\$ 3,304	\$ 205	\$ (2,894)
Net Pension Liability - 12/31/15	\$ 7,673	\$ 1,989	\$ (3,694)



EAST STROUDSBURG BOROUGH NON-UNIFORMED CASH BALANCE  
PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	None	\$ 1,676
2013	None	4,841
2014	None	8,453
2015	None	11,826
2016	None	15,031
2017	None	21,794

Note: In 2017, the borough met the plan's \$22,948 funding requirement through the deposit of \$21,794 in employer contributions and \$1,154 in terminated employee forfeitures.

EAST STROUDSBURG BOROUGH NON-UNIFORMED CASH BALANCE  
PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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**Mr. Brian Bond**  
Borough Manager

**Mr. Kenneth D. Konz**  
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