

COMPLIANCE AUDIT

Ebensburg Borough Non-Uniformed Pension Plan Cambria County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

September 2019



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
Ebensburg Borough
Cambria County
Ebensburg, PA 15931

We have conducted a compliance audit of the Ebensburg Borough Non-Uniformed Pension Plan for the period January 1, 2016 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and 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: The first five bullets should be included in all audit reports.

- 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 whether annual employee contributions 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 period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- 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.

Ebensburg Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the borough's offices. Those 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 Ebensburg 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 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 Ebensburg 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 findings further discussed later in this report:

- Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 2 – Failure To Properly Determine And Properly Pay The Minimum Municipal Obligation Of The 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 Ebensburg 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.

September 6, 2019

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 Ebensburg 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 including, but not limited to, the following:

The Ebensburg Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 606. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established March 27, 1972. Active members are required to contribute 3 percent of wages to the plan for the years 2016 and 2018 and 2 percent of wages for 2017. As of December 31, 2018, the plan had 14 active members, 4 terminated members eligible for vested benefits in the future, and 11 retirees receiving pension benefits from the plan and 3 retirees receiving benefits funded through annuities purchased with plan assets.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Age 65
Early Retirement	Age 55 and 10 years of service.
Vesting	Borough manager – 100% after 10 years of service, all others - 25% after 5 years of service, plus 5% for each of the next 5 years and 10% thereafter up to 100% after 15 years of service.

Retirement Benefit:

A monthly benefit equal to 1.2% of average monthly pay (total pay averaged over the 5 consecutive plan years out of the last 10 plan years that produce the highest average) multiplied by years of service completed before 1/1/07 plus 1.5% of average monthly pay for years of service completed after 1/1/07. For the borough manager, the monthly benefit will be equal to 3.5% of average monthly pay (total pay averaged over the 3 consecutive plan years out of the last 10 plan years that produce the highest average) multiplied by all years of service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Early Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.
After Retirement Eligibility	The form of benefit payment in force for the participant at the time death occurs.

Disability Benefit:

The accrued benefit based on years of service and average monthly pay at date of disability.

EBENSBURG BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough failed to certify an eligible non-uniformed employee and understated payroll by \$36,499 on the Certification Form AG 385 filed in 2017. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough’s state aid allocation was based on pension costs, the borough received an underpayment of state aid as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2017	8.38003%	\$ 36,499	\$ 3,059

Although the borough will be reimbursed for the underpayment of state aid due to the borough’s certification error, the full amount of the 2017 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

EBENSBURG BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATIONS

Finding No. 2 – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not properly determine or fully pay the minimum municipal obligation (MMO) of the non-uniformed pension plan for the year 2018, as required by Act 205. The MMO determined by the municipality understated payroll by \$69,856. Based upon an estimate prepared by this department from the files and records provided by plan officials, the municipality had an unpaid MMO balance of \$7,046 for the year 2018.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

With regard to the payroll estimate used in the preparation of the MMO, the Pennsylvania Code, Title 16, Section 204.1(c)(1) states, in part:

The payroll used in determining the minimum municipal obligation of a pension plan under section 302(c) of the act shall be based on the payroll to be reported on the Internal Revenue Service Form W-2 and shall be calculated as the total payroll for active members of the plan as of the date of the determination, plus the payroll for the same active members of the plan projected to the year's end using the payroll rates in effect as of the date of the determination.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

EBENSBURG BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the payroll disclosed included all active members of the plan.

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the plan's 2018 MMO by the December 31, 2018, deadline, the municipality must add the outstanding 2018 MMO balance to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the outstanding MMO due to the non-uniformed pension plan for the year 2018, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

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

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

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

The supplementary information contained on Pages 6 through 9 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	\$ 60,509	\$ 58,565
Interest	126,960	128,322
Difference between expected and actual experience	-	(108,199)
Benefit payments, including refunds of member contributions	<u>(54,683)</u>	<u>(63,809)</u>
Net Change in Total Pension Liability	132,786	14,879
Total Pension Liability – Beginning	<u>1,659,140</u>	<u>1,791,926</u>
Total Pension Liability – Ending (a)	<u><u>\$ 1,791,926</u></u>	<u><u>\$ 1,806,805</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 85,467	\$ 83,183
Contributions – member	19,280	19,219
Net investment income	68,605	(28,389)
Benefit payments, including refunds of member contributions	<u>(54,683)</u>	<u>(63,809)</u>
Administrative expense	<u>(12,769)</u>	<u>(13,044)</u>
Net Change in Plan Fiduciary Net Position	105,900	(2,840)
Plan Fiduciary Net Position – Beginning	<u>1,382,558</u>	<u>1,488,458</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 1,488,458</u></u>	<u><u>\$ 1,485,618</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 303,468</u></u>	<u><u>\$ 321,187</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.1%	82.2%
Estimated Covered Employee Payroll	\$ 672,217	\$ 607,893
Net Pension Liability as a Percentage of Covered Employee Payroll	45.1%	52.8%

EBENSBURG 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 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 58,142	\$ 64,607
Interest	136,733	154,670
Difference between expected and actual experience	-	22,121
Changes of assumptions	-	245,325
Benefit payments, including refunds of member contributions	(85,212)	(79,228)
Net Change in Total Pension Liability	<u>109,663</u>	<u>407,495</u>
Total Pension Liability – Beginning	1,806,805	1,916,468
Total Pension Liability – Ending (a)	<u>\$ 1,916,468</u>	<u>\$ 2,323,963</u>
Plan Fiduciary Net Position		
General Municipal State Aid	\$ 70,758	\$ 75,393
Contributions – member	17,980	12,674
Net investment income	109,241	253,125
Benefit payments, including refunds of member contributions	(85,212)	(79,228)
Administrative expense	(18,905)	(18,792)
Net Change in Plan Fiduciary Net Position	<u>93,862</u>	<u>243,172</u>
Plan Fiduciary Net Position – Beginning	1,485,618	1,579,480
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,579,480</u>	<u>\$ 1,822,652</u>
Net Pension Liability – Ending (a-b)	<u>\$ 336,988</u>	<u>\$ 501,311</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.4%	78.4%
Estimated Covered Employee Payroll	\$ 638,271	\$ 671,241
Net Pension Liability as a Percentage of Covered Employee Payroll	52.8%	74.7%

EBENSBURG 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, 2015 and 2016, calculated using the discount rate of 7.5%, 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:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net Pension Liability – 12/31/14	\$ 534,103	\$ 303,468	\$ 161,448
Net Pension Liability – 12/31/15	\$ 541,509	\$ 321,187	\$ 133,606
Net Pension Liability – 12/31/16	\$ 568,867	\$ 336,988	\$ 139,380

In addition, the following presents the net pension liability of the borough as of December 31, 2017, calculated using the discount rate of 7.0%, 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 (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Net Pension Liability – 12/31/17	\$ 786,019	\$ 501,311	\$ 260,324

EBENSBURG BOROUGH NON-UNIFORMED 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*
2009	\$ 43,701	\$ 43,701	\$ -	\$ -	-
2010	39,216	42,053	(2,837)	497,453	8.5%
2011	71,977	79,010	(7,033)	-	-
2012	83,278	83,278	-	636,744	13.1%
2013	72,376	76,376	(4,000)	-	-
2014	85,467	85,467	-	687,287	12.4%
2015	83,183	83,183	-	607,893	13.7%
2016	70,758	70,758	-	637,900	11.1%
2017	75,393	75,393	-	671,241	11.2%
2018	123,505	123,505	-		

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014. In addition, due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

SCHEDULE OF INVESTMENT RETURNS

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

2017	16.29%
2016	7.48%
2015	(1.93%)
2014	5.00%

EBENSBURG 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	\$ 1,168,569	\$ 1,533,083	\$ 364,514	76.2%
01-01-15	1,488,458	1,683,726	195,268	88.4%
01-01-17	1,579,480	2,183,914	604,434	72.3%

EBENSBURG 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.

EBENSBURG 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, closed
Remaining amortization period	14 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	4.25%

* Includes inflation at 2.75%

EBENSBURG BOROUGH NON-UNIFORMED PENSION PLAN
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This report was initially distributed to the following:

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