

LIMITED PROCEDURES ENGAGEMENT

Emlenton Borough Non-Uniformed Pension Plan Venango County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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
Emlenton Borough
Venango County
Emlenton, PA 16373

We conducted a Limited Procedures Engagement (LPE) of the Emlenton Borough Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017 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 municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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, 2012 to December 31, 2017, 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, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- Whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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 Emlenton 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 findings further discussed later in this report:

Finding No. 1 – Partial Compliance With Prior Audit Recommendation –
Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An
Overpayment Of State Aid

Our determination to perform an 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 Emlenton 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.

November 15, 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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EMLENTON BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Emlenton Borough has partially complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current engagement period, the borough returned \$15,079 to the Commonwealth for the excess state aid received in the years 2013 and 2014; however, plan officials again failed to reconcile the amount of state aid allocated to the non-uniformed pension plan, along with available plan forfeitures with the plan's pension costs, as further discussed in the Findings and Recommendations section of this report.

EMLENTON BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement

Condition: As disclosed in the Status of Prior Finding section of this report, although the borough partially complied with the prior recommendation by returning the excess state aid received in the years 2013 and 2014 to the Commonwealth, plan officials again failed to reconcile the amount of state aid allocated to the non-uniformed pension plan, along with available plan forfeitures as prescribed by the plan's governing document, with the plan's pension costs for 2015 and 2016. The borough's 2015 and 2016 state aid allocations amounting to \$7,809 and \$7,002, respectively, were in excess of the plan's annual pension costs for the years 2015 and 2016, as illustrated below:

	<u>2015</u>	<u>2016</u>
Actual municipal pension costs	\$ 6,489	\$ 5,255
Forfeitures available*	<u>(4,448)</u>	<u>(5,076)</u>
Adjusted municipal pension costs	2,041	179
State aid allocation	<u>(7,809)</u>	<u>(7,002)</u>
Excess state aid	<u><u>\$ 5,768</u></u>	<u><u>\$ 6,823</u></u>

* At December 31, 2014, the non-uniformed plan had an available forfeiture balance of \$4,448 and forfeitures in the amount of \$5,076 became available in 2016.

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.

In addition, Section 13 of the plan agreement states, in part:

The Borough will contribute quarterly seven percent (7%) of each member's compensation to the System.

EMLENTON BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, Section 14 of the plan agreement states:

In the event a member's service with the Borough is terminated for any reason whatsoever before the funds set aside for such member are vested or if the member elects not to receive a benefit, then the amount of such funds which have not been contributed by the member and which are not vested shall be credited against the next contribution due from the Borough for the remaining or future members of this Plan.

Cause: Plan officials again failed to establish adequate internal control procedures to reconcile the borough's state aid allocation and available plan forfeitures with the plan's actual annual pension costs.

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 years 2015 and 2016, in the total amount of \$12,591, must be returned to the Commonwealth for redistribution.

Furthermore, the borough's future state aid allocation may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality return the \$12,591 of excess state aid received in the years 2015 and 2016 to the Commonwealth, from the 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.

Furthermore, we recommend that, in the future, plan officials reconcile the borough's annual state aid allocation and any available employee forfeitures with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

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

Auditor's Conclusion: Due to the potential withhold of state aid, the borough's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement of the plan.

EMLENTON BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The borough overstated eligible payroll attributable to its full-time employees participating in the non-uniformed pension plan by \$5,520 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), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months, worked not less than 35 hours per week and must have been participating in a pension plan during the certification year. In addition, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified and follow the instructions accompanying the certification form.

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 incorrect certification of pension data affected the borough's state aid allocation, as identified below:

Normal Cost	Payroll Overstated	State Aid Overpayment
7.0%	\$ 5,520	\$ 386

Recommendation: We recommend that the total overpayment of state aid, in the amount of \$386, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension 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 the check.

We also 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.

EMLENTON BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, if the reimbursement to the Commonwealth is made from non-uniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

Management 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 of the pension plan.

EMLENTON BOROUGH NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this report cites an overpayment of state aid to the borough in the amount of \$12,591, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension 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.

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

The supplementary information contained on Pages 7 and 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 8,823	\$ 9,155	\$ 7,364
Interest	9,878	10,915	11,687
Difference between expected and actual experience	1	(1)	(5,075)
Benefit payments, including refunds of member contributions	-	-	(2,176)
Net Change in Total Pension Liability	<u>18,702</u>	<u>20,069</u>	<u>11,800</u>
Total Pension Liability – Beginning	<u>176,398</u>	<u>195,100</u>	<u>215,169</u>
Total Pension Liability - Ending (a)	<u><u>\$ 195,100</u></u>	<u><u>\$ 215,169</u></u>	<u><u>\$ 226,969</u></u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 80	\$ -	\$ -
Contributions – PMRS assessment	-	-	100
Contributions – employee	2,647	2,747	2,209
PMRS investment income	10,529	11,316	12,000
Market value investment income	(615)	(12,362)	4,789
Benefit payments, including refunds of member contributions	-	-	(2,176)
PMRS administrative expense	(80)	(80)	(80)
Additional administrative expense	(404)	(472)	(588)
Net Change in Plan Fiduciary Net Position	<u>12,157</u>	<u>1,149</u>	<u>16,254</u>
Plan Fiduciary Net Position – Beginning	<u>190,055</u>	<u>202,212</u>	<u>203,361</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 202,212</u></u>	<u><u>\$ 203,361</u></u>	<u><u>\$ 219,615</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ (7,112)</u></u>	<u><u>\$ 11,808</u></u>	<u><u>\$ 7,354</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	103.65%	94.51%	96.76%
Estimated Covered Employee Payroll	\$ 88,231	\$ 91,554	\$ 73,640
Net Pension Liability as a Percentage of Covered Employee Payroll	(8.06)%	12.90%	9.99%

*Actual 2014 employer contribution due of \$6,276 was funded with \$6,276 in plan forfeitures. The actual 2015 employer contribution due of \$6,489 was funded with \$2,041 of state aid and \$4,448 in plan forfeitures. The actual 2016 employer contribution due of \$5,850 was funded with \$179 of state and \$5,076 in plan forfeitures.

EMLENTON 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%)
Net Pension Liability - 12/31/14	\$ 31,907	\$ (7,112)	\$ (46,132)
Net Pension Liability - 12/31/15	\$ 54,842	\$ 11,808	\$ (31,225)

In addition, 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	\$ 52,747	\$ 7,354	\$ (38,040)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 5,412	\$ 45
2013	4,086	1,583
2014	None	None
2015	\$ 2,041	None
2016	179	None
2017	4,403	\$ 283

Note: In 2014, the borough met the plan's \$6,276 funding requirement through \$6,276 in terminated employee forfeitures. In 2015, the borough met the plan's \$6,489 funding requirement through the deposit of \$2,041 in state aid and \$4,448 in terminated employee forfeitures. And, in 2016, the borough met the plan's \$5,255 funding requirement through the deposit of \$179 in state aid and \$5,076 in terminated employee forfeitures.

EMLENTON 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 Jamie Hunt
Mayor

Mr. Barry Louise
Council President

Ms. Nancy Marano
Borough Manager

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.