

LIMITED PROCEDURES ENGAGEMENT

Emporium Borough Non-Uniformed Pension Plan Cameron 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
Emporium Borough
Cameron County
Emporium, PA 15834

We conducted a Limited Procedures Engagement (LPE) of the Emporium Borough Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2018 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.
- 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.
- 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 monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Emporium 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 – Failure To Properly Determine And Fully Pay The Minimum
Municipal Obligation Of The Plan

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 Emporium 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 26, 2019



EUGENE A. DEPASQUALE
Auditor General

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EMPORIUM BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – 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. Based upon an estimate prepared by this department, the municipality had an unpaid MMO balance of \$2,010 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.

EMPORIUM BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials reduced the borough's required annual obligation to its non-uniformed pension plan by estimated member contributions which were no longer mandatorily required after 2017 for plan members and failed to implement adequate internal control procedures to ensure that the MMO was properly calculated in accordance with Act 205.

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 pay the 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 engagement of the plan.

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

Auditor Conclusion: Compliance will be evaluated through our next engagement of the plan.

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

The supplementary information contained on Pages 3 through 6 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 (beginning of year)	\$ 29,230	\$ 26,439
Interest (includes interest on service cost)	49,046	49,414
Difference between expected and actual experience	11,158	(37,307)
Changes of assumptions	-	3,248
Benefit payments, including refunds of member contributions	(39,317)	(46,957)
Net Change in Total Pension Liability	<u>50,117</u>	<u>(5,163)</u>
Total Pension Liability – Beginning	884,471	934,588
Total Pension Liability – Ending (a)	<u>\$ 934,588</u>	<u>\$ 929,425</u>
Plan Fiduciary Net Position		
Contributions – employer *	\$ 454	\$ -
Contributions – PMRS assessment	-	80
Contributions – employee	12,295	12,222
PMRS investment income	59,123	61,518
Market value investment income	2,817	(52,885)
Benefit payments, including refunds of member contributions	(39,317)	(46,957)
PMRS Administrative expense	(260)	(320)
Additional administrative expense	(2,267)	(2,565)
Net Change in Plan Fiduciary Net Position	<u>32,845</u>	<u>(28,907)</u>
Plan Fiduciary Net Position – Beginning	1,080,825	1,113,670
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,113,670</u>	<u>\$ 1,084,763</u>
Net Pension Liability – Ending (a-b)	<u>\$ (179,082)</u>	<u>\$ (155,338)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	119.16%	116.71%
Estimated Covered Employee Payroll	\$ 294,301	\$ 268,096
Net Pension Liability as a Percentage of Covered Employee Payroll	(60.85%)	(57.94%)

* Does not include PMRS assessment. The 2014 employer contributions represent an actuarial surplus used for annual billing of \$434 and administrative expense of \$20.

EMPORIUM 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 (beginning of year)	\$ 26,200	\$ 38,804
Interest (includes interest on service cost)	51,330	53,926
Change of benefits	-	247,460
Difference between expected and actual experience	23,264	-
Changes of assumptions	23,815	-
Benefit payments, including refunds of member contributions	(42,204)	(39,598)
Net Change in Total Pension Liability	<u>82,405</u>	<u>300,592</u>
Total Pension Liability – Beginning	929,425	1,011,830
Total Pension Liability – Ending (a)	<u>\$ 1,011,830</u>	<u>\$ 1,312,422</u>
 Plan Fiduciary Net Position		
Contributions – PMRS assessment	\$ -	\$ (20)
Contributions – employee	11,686	11,427
PMRS investment income	63,393	61,744
Market value investment income	18,443	136,317
Benefit payments, including refunds of member contributions	(42,204)	(39,598)
PMRS administrative expense	(280)	(300)
Additional administrative expense	(3,106)	(2,840)
Net Change in Plan Fiduciary Net Position	<u>47,932</u>	<u>166,730</u>
Plan Fiduciary Net Position – Beginning	1,084,763	1,132,695
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,132,695</u>	<u>\$ 1,299,425</u>
Net Pension Liability – Ending (a-b)	<u>\$ (120,865)</u>	<u>\$ 12,997</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	111.95%	99.01%
 Estimated Covered Employee Payroll	\$ 288,327	\$ 277,347
 Net Pension Liability as a Percentage of Covered Employee Payroll	(41.92%)	4.69%

EMPORIUM 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 5.50%, 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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability – 12/31/14	\$ (89,793)	\$ (179,082)	\$ (255,996)
Net Pension Liability – 12/31/15	\$ (66,984)	\$ (155,338)	\$ (230,971)

In addition, the following presents the net pension liability of the borough as of December 31, 2016 and 2017, 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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability – 12/31/16	\$ (15,684)	\$ (120,865)	\$ (210,788)
Net Pension Liability – 12/31/17	\$ 149,424	\$ 12,997	\$ (103,640)

EMPORIUM 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
2014	\$ -	\$ 454	\$ (454)	\$ 294,301	0.15%
2015	-	80	(80)	268,096	0.03%
2016	-	-	-	288,327	0.00%
2017	-	(20)	(20)	277,347	0.01%
2018**	2,070	60	2,010	*	

* Due to the timing of this engagement, covered-employee payroll for 2018 was not provided in this schedule.

** The borough failed to pay its MMO for 2018 (*refer to finding and recommendation of this report*).

EMPORIUM 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	\$ 1,076,629	\$ 851,425	\$ (225,204)	126.5%
01-01-15	1,136,647	934,588	(202,059)	121.6%
01-01-17	1,211,274	1,011,830	(199,444)	119.7%

EMPORIUM 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.

EMPORIUM 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	None
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses.
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%).
Cost-of-living adjustments	2.8% per year, subject to plan limitations.

EMPORIUM BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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