

LIMITED PROCEDURES ENGAGEMENT

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

February 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
Etna Borough
Allegheny County
Etna, PA 15223

We conducted a Limited Procedures Engagement (LPE) of the Etna 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 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 the plan member 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 the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to recipient.
- 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 Etna 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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 Etna 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.

January 30, 2019


EUGENE A. DEPASQUALE
Auditor General

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ETNA BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The borough incorrectly certified the total number of eligible non-uniformed members on the Certification Form AG 385 filed in 2015. Although plan officials correctly listed the 7 eligible non-uniformed employees on the personnel roster which serves as support for Certification Form AG 385, the borough inadvertently reported 8 as the total number of employees on the actual Certification Form AG 385. The data contained on this certification form is based on prior calendar year information.

Criteria: The instructions on Certification Form AG 385 state, in part:

Complete Personnel Rosters for each pension plan (Uniformed and Non-Uniformed) and return with Certification Form AG-385. Totals from the Personnel Roster Must Equal totals on the Certification Form AG-385.

Cause: The borough inadvertently over reported the total number of employees on the Certification Form and internal control procedures were not adequate to ensure that the reporting error was identified and corrected in a timely manner.

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 original state aid allocation for 2015 was based on pension costs which amounted to \$83,202, based on the corrected information, the borough was only entitled to receive an allocation of state aid based on unit value amounting to \$82,338. Therefore, the borough received an overpayment of state aid in the amount of \$864 in 2015.

Recommendation: We recommend that the total excess state aid, in the amount of \$864, 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.

Management's Response: Management agreed with finding without exception.

Auditor's Conclusion: The borough's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next plan engagement.

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

The supplementary information contained on Pages 2 through 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	\$ 30,052	\$ 31,184
Interest	70,218	78,844
Difference between expected and actual experience	74,099	-
Changes of assumptions	-	7,881
Benefit payments, including refunds of member contributions	<u>(14,308)</u>	<u>(23,131)</u>
Net Change in Total Pension Liability	160,061	94,778
Total Pension Liability – Beginning	<u>1,253,695</u>	<u>1,413,756</u>
Total Pension Liability – Ending (a)	<u><u>\$ 1,413,756</u></u>	<u><u>\$ 1,508,534</u></u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 7,959	\$ 7,197
Contributions – PMRS assessment	-	80
Contributions – employee	9,480	11,730
PMRS investment income	78,881	86,756
Market value investment income	89,296	(190,889)
Benefit payment, including refunds of member contributions	(14,308)	(23,131)
PMRS administrative expense	(280)	(340)
Additional administrative expense	<u>(3,025)</u>	<u>(3,617)</u>
Net Change in Plan Fiduciary Net Position	168,003	(112,214)
Plan Fiduciary Net Position – Beginning	<u>1,421,520</u>	<u>1,589,523</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 1,589,523</u></u>	<u><u>\$ 1,477,309</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ (175,767)</u></u>	<u><u>\$ 31,225</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	112.43%	97.94%
Estimated Covered Employee Payroll	\$ 379,861	\$ 390,999
Net Pension Liability as a Percentage of Covered Employee Payroll	(46.27%)	7.99%

* 2014 employer contributions include \$7,332 state aid deposited into the plan plus \$627 for administrative expenses and allocated insurance premiums paid from actuarial surplus. 2015 employer contributions include \$7,197 state aid deposited to the plan.

ETNA 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	\$ 31,918	\$ 34,719
Interest	84,069	85,412
Difference between expected and actual experience	(40,285)	-
Changes of assumptions	40,971	-
Benefit payments, including refunds of member contributions	<u>(24,170)</u>	<u>(17,956)</u>
Net Change in Total Pension Liability	92,503	102,175
Total Pension Liability – Beginning	<u>1,508,534</u>	<u>1,601,037</u>
Total Pension Liability – Ending (a)	<u><u>\$ 1,601,037</u></u>	<u><u>\$ 1,703,212</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ -	\$ 3,538
Contributions – PMRS assessment	20	20
Contributions – employee	13,094	13,850
PMRS investment income	87,163	87,662
Market value investment income	40,182	191,530
Benefit payments, including refunds of member contributions	(24,170)	(17,956)
PMRS administrative expense	(260)	(300)
Additional administrative expense	<u>(4,270)</u>	<u>(4,031)</u>
Net Change in Plan Fiduciary Net Position	111,759	274,313
Plan Fiduciary Net Position – Beginning	<u>1,477,309</u>	<u>1,589,068</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 1,589,068</u></u>	<u><u>\$ 1,863,381</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 11,969</u></u>	<u><u>\$ (160,169)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	99.25%	109.40%
Estimated Covered Employee Payroll	\$ 436,471	\$ 460,263
Net Pension Liability as a Percentage of Covered Employee Payroll	2.74%	(34.80%)

ETNA 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:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability – 12/31/14	\$ (33,752)	\$ (175,767)	\$ (301,520)
Net Pension Liability – 12/31/15	\$ 185,653	\$ 31,225	\$ (103,983)

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:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability – 12/31/16	\$ 189,889	\$ 11,969	\$ (144,026)
Net Pension Liability – 12/31/17	\$ 29,106	\$ (160,169)	\$ (326,119)

ETNA 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	\$ 1,368,192	\$ 1,173,316	\$ (194,876)	116.6%
01-01-15	1,616,249	1,413,756	(202,493)	114.3%
01-01-17	1,682,630	1,601,037	(81,593)	105.1%

ETNA 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.

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 3,823	100.5%
2013	None	N/A
2014	None	N/A
2015	None	N/A
2016	None	N/A
2017	\$ 1,315	270.6%

ETNA 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	N/A
Remaining amortization period	N/A
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

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