

COMPLIANCE AUDIT

Greencastle Borough Non-Uniformed Pension Plan Franklin County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

May 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
Greencastle Borough
Franklin County
Greencastle, PA 17201

We have conducted a compliance audit of the Greencastle Borough Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2019. 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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:

- 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 whether retirement benefits calculated for all three plan members who retired during the current audit 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for all four of the plan members who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined 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.
- We determined whether the January 1, 2015, January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 2018 and 2020, 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 plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Greencastle Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ending December 31, 2016, 2017, and 2018, 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 Greencastle 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 Greencastle 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 finding further discussed later in this report:

Finding – Failure To Include Eligible Employees In The 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 Greencastle 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.

May 13, 2020



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 Greencastle 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.

The Greencastle Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2008-002, as amended. The plan was established January 1, 1974. Active members are not required to contribute to the plan. As of December 31, 2019, the plan had 14 active members, 9 terminated members eligible for vested benefits in the future, and 13 retirees receiving pension benefits.

BACKGROUND – (Continued)

As of December 31, 2019, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 62 and 10 years of service.
Early Retirement	Age 55 and 20 years of service.
Vesting	20% vesting available after 3 years of vesting service, then 20% per year up until 100% vested.

Retirement Benefit:

Benefit equals 1.3% of average compensation multiplied by service through December 31, 2019 plus 2% of average compensation multiplied by service earned after January 1, 2020. Average compensation is the average of the three latest compensation years.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After 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.

Service Related Disability Benefit:

Monthly income payable until normal retirement date, death or recovery and a deferred annuity payable at normal retirement date equal to accrued benefit on date of disability (minimum = \$20).

GREENCASTLE BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Include Eligible Employees In The Pension Plan

Condition: The borough failed to properly identify and include two employees deemed eligible for participation in the non-uniformed pension plan in accordance with the plan document. The two employees worked more than the required minimum hours of service during the audit period and satisfied the age requirement for participation in the borough’s pension plan. During the current audit period one of the individuals worked from October 16, 2006 through July 6, 2017 before separating from service and worked 1,308 hours during 2016. Another employee, who was hired September 11, 2018, worked 1,293 hours during 2019. Neither of these individuals were enrolled into the non-uniformed pension plan as of the date of this report.

Criteria: Section 1.02 of Article I of the separately executed plan agreement adopted by Ordinance No. 2008-002, states, in part:

Eligible Employee means any Employee of the Employer whose employment classification with the Employer is Non-uniformed class (not employed as a police officer);

Accrual Service means one year of service for each Plan Year on or after January 1, 1995 in which an Employee has at least 1,000 hours of service with the Employer.

Vesting Service means one year of service for each Plan year on or after January 1, 1995, in which an employee has at least 1,000 hours-of-service with the Employer.

Year of Service means an Employee’s Vesting Service disregarding any modifications which exclude service;

In addition, Section 2.01(a)(1) of Article II of the separately executed pension plan agreement defines Active Participant as follows:

An Employee shall first become an Active Participant (begin active participation in the Plan) on the earliest Monthly Date on or after January 1, 1995 on which he is an Eligible Employee and has met the eligible requirement set forth below. This date is his Entry Date.

- (1) He is age 18 or older.

GREENCASTLE BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

Cause: Plan officials were unaware of the provisions currently prescribed in the plan document for participation in the non-uniformed pension plan; and, the borough lacked adequate internal control procedures to timely identify and enroll all eligible participants into the borough's pension plan in accordance with the plan document.

Effect: The failure to recognize membership for all eligible employees could result in individuals being denied benefits to which they are entitled under the plan's governing document.

Recommendation: We recommend that plan officials take appropriate action to ensure that all employees eligible for participation in the non-uniformed pension plan under the current provisions of the plan document, including the two aforementioned employees, are given the opportunity to participate and be eligible for all the benefits due from the pension plan at their earliest opportunity to do so.

We also recommend that the borough establish adequate internal control procedures to ensure the timely identification and enrollment of all subsequently hired employees meeting the eligibility criteria established in the pension plan document into the non-uniformed pension plan accordingly.

Management's Response: Management provided the following written response which is included in its entirety, as follows:

On behalf of the Borough of Greencastle, please allow this Written Management Response letter to serve as a disagreement to the finding on the Greencastle Borough Non-Uniform Pension Plan for audit period January 1, 2016 to December 31, 2019.

The Borough of Greencastle's Non-Uniform Pension Plan has and will continue to be an offered benefit for full-time employees only. From the time the plan was established in January 1, 1974 – present day the Borough has never funded nor intended to fund for part-time employee benefits.

The Borough recognizes the language in the plan document. The process to amending the plan document has already commenced to specifically increase hours worked to 1,820. This will eliminate the confusion on who is eligible for the plan. Precedent was set in prior audits, valuation reports and funding that the Borough has never considered/intended part-time employees to be included.

GREENCASTLE BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

In an effort to maintain consistency with regard to historical action/decision making processes by prior audits conducted by the Auditor General's auditing staff, the Borough asks the finding to be rescinded.

Management thanks you for your time and consideration regarding this matter as we strive for consistency and uniformity across prior and future auditing periods.

Auditor's Conclusion: Based on the management response, the department appreciates the borough's efforts to clarify its intentions regarding pension plan eligibility going forward. The proposed plan amendment would effectively eliminate participation by non-full-time employees hired by the borough after the effective date of any subsequently executed plan amendment from becoming eligible for pension benefits unless the employee works the required 1,820 hours or more per year. However, for the current audit period, although it was noted by plan officials, from the response provided above, that it has been the intention of the borough to allow pension benefits to full-time employees only, the plan's governing document, as currently stated in the Criteria above, clearly indicates that employees hired by the borough in a position other than a police officer, who attain age 18 years of age or older, are eligible for participation in the borough's non-uniformed pension plan. In addition, each eligible participant accrues a year of vesting service for each plan year on or after January 1, 1995 in which the employee has at least 1,000 hours of service with the employer. Therefore, the fact remains that the employees identified above may still be due accrued service time/pension benefits under the existing plan document. Therefore, the issue remains as stated and the borough, with assistance from their solicitor, should take appropriate action to determine whether any existing employees are eligible for inclusion in the non-uniformed pension plan and any additional service time and/or accrued pension benefits, accordingly. Compliance will be evaluated during our next audit of the plan.

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

The supplementary information contained on Pages 6 through 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, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 63,975	\$ 60,608	\$ 63,487	\$ 49,163	\$ 51,498
Interest	129,090	139,282	150,271	151,242	161,309
Difference between expected and actual experience	-	(43,927)	-	(130,919)	-
Changes of assumptions	-	37,705	-	5,340	-
Benefit payments, including refunds of member contributions	(43,201)	(60,739)	(61,208)	(61,442)	(84,260)
Net Change in Total Pension Liability	149,864	132,929	152,550	13,384	128,547
Total Pension Liability - Beginning	1,623,309	1,773,173	1,906,102	2,058,652	2,072,036
Total Pension Liability - Ending (a)	<u>\$ 1,773,173</u>	<u>\$ 1,906,102</u>	<u>\$ 2,058,652</u>	<u>\$ 2,072,036</u>	<u>\$ 2,200,583</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 64	\$ 592	\$ -	\$ -	\$ -
Contributions - state aid	83,069	82,409	84,179	84,438	64,575
Net investment income	79,066	(25,042)	93,594	265,832	(134,615)
Benefit payments, including refunds of member contributions	(43,201)	(60,739)	(61,208)	(61,442)	(84,260)
Administrative expense	(5,375)	(5,875)	(5,875)	(5,375)	(6,375)
Net Change in Plan Fiduciary Net Position	113,623	(8,655)	110,690	283,453	(160,675)
Plan Fiduciary Net Position - Beginning	1,558,149	1,671,772	1,663,117	1,773,807	2,075,260
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,671,772</u>	<u>\$ 1,663,117</u>	<u>\$ 1,773,807</u>	<u>\$ 2,057,260</u>	<u>\$ 1,896,585</u>
Net Pension Liability - Ending (a-b)	<u>\$ 101,401</u>	<u>\$ 242,985</u>	<u>\$ 284,845</u>	<u>\$ 14,776</u>	<u>\$ 303,998</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.3%	87.3%	86.2%	99.3%	86.2%
Estimated Covered Employee Payroll	\$ 662,168	\$ 660,695	\$ 646,712	\$ 636,600	\$ 656,511
Net Pension Liability as a Percentage of Covered Employee Payroll	15.3%	36.8%	44.0%	2.3%	46.3%

GREENCASTLE 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, 2015, 2016, 2017, and 2018, calculated using the discount rate of 7.75%, 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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability - 12/31/2015	\$ 474,346	\$ 242,985	\$ 46,332
Net Pension Liability - 12/31/2016	\$ 527,380	\$ 284,845	\$ 78,181
Net Pension Liability - 12/31/2017	\$ 250,171	\$ 14,776	\$ (186,270)
Net Pension Liability - 12/31/2018	\$ 547,697	\$ 303,998	\$ 95,517

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
2010	\$ 64,970	\$ 67,898	\$ (2,928)	\$ 583,131	11.6%
2011	65,598	66,193	(595)	589,800	11.2%
2012	60,460	61,708	(1,248)	626,563	9.8%
2013	61,033	62,376	(1,343)	632,829	9.9%
2014	83,133	83,133	-	662,168	12.6%
2015	83,001	83,001	-	660,695	12.6%
2016	83,156	84,179	(1,023)	646,712	13.0%
2017	82,183	84,438	(2,255)	636,600	13.3%
2018	62,764	64,575	(1,811)	656,511	9.8%
2019	63,185	63,185	-		

* Due to the timing of this audit, covered-employee payroll for 2019 was not provided in this schedule.

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

SCHEDULE OF INVESTMENT RETURNS

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

2018	(6.66%)
2017	15.20%
2016	5.72%
2015	(1.51%)
2014	5.13%

GREENCASTLE 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, 2015, 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)
01-01-15	\$ 1,645,597	\$ 1,766,951	\$ 121,354	93.1%
01-01-17	1,892,756	1,933,073	40,317	97.9%
01-01-19	2,099,844	2,304,980	205,136	91.1%

Note: The market values of the plan’s assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period subject to a corridor between 80 to 120 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

GREENCASTLE 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.

GREENCASTLE 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	9 years
Asset valuation method	5 year smoothing, the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75%
Cost-of-living adjustments	None assumed

GREENCASTLE BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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