

COMPLIANCE AUDIT

Hatboro Borough Non-Uniformed Pension Plan Montgomery 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
Hatboro Borough
Montgomery County
Hatboro, PA 19040

We have conducted a compliance audit of the Hatboro Borough Non-Uniformed Pension Plan for the period January 1, 2015 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and
2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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 the plan member 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 benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient. We also determined whether retirement benefits calculated for the plan member 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 benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined.
- 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.

Hatboro Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016, and 2017, 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 Hatboro 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Hatboro 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 – Noncompliance With Prior Audit Recommendation – Failure To
Include Eligible Employees In The Pension Plan

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendations noted in this audit report.

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 Hatboro Borough and, where appropriate, their responses have been included in the report.

December 24, 2019



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 Hatboro 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 Hatboro Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 990. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. Active members are required to contribute 2.5 percent of annual compensation, plus 2.5 percent of annual compensation in excess of \$7,800 to the plan. As of December 31, 2018, the plan had 5 active members, 1 terminated member eligible for vested benefits in the future, and 2 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Age 65 and 10 years of service.
Early Retirement	Age 55 and 20 years of service or 62 and 15 years of service.
Vesting	0-6 years: 0%, 7 years: 50%, 8 years: 60%, 9 years: 70%, 10 years: 80%, 11 years: 90%, 12 or more years: 100%.

Retirement Benefit:

Benefit equals 50% of highest 60 months of consecutive pay, minus \$266, reduced pro rata for the participant's years of benefit service less than 20 years.

Survivor Benefit:

If a member dies, benefit payable to beneficiary equal to the member's contribution plus interest.

Service Related Disability Benefit:

If age 50 with 15 years of service – benefit equal to accrued benefit.

HATBORO BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Hatboro Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Failure To Include Eligible Employees In The Pension Plan

HATBORO BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Failure To Include Eligible Employees In The Pension Plan

Condition: As disclosed in our prior two audits, the borough excluded two full-time employees from participating in the pension plan. The employees in question were hired on January 22, 1990 and February 20, 1990. Subsequent to the first issuance of this finding in 2013, the two employees are no longer employed by the borough. The borough took no action to comply with our prior audit recommendation while the employees were still active employees, to ensure that the employees were given the opportunity to participate in the pension plan, and has taken no action subsequent to their respective terminations of employment. We were unable to determine the pension benefits due to the former employees because the dates of termination were not provided to our Department.

Criteria: The plan's governing document, Ordinance No. 990, Section 2.2 states:

(a) Eligibility

(1) Age/Service Requirements - An employee who is a member of the eligible class of employees shall be eligible for plan participation after he has satisfied the following participation requirement(s):

(A) Completion of one hour of service.

(B) No age requirement.

(2) Eligible Class of Employees - All full-time regular employees of the employer shall be eligible to be covered under the plan except for employees in the following category(ies):

- Individuals not directly employed by the employer as defined in Section 1.6. An employee of an entity that is not a participating employer in this plan shall not participate in this plan.
- Employees employed as police officers.
- Employees in the Main Street Manager Program.
- Employees who are highly compensated employees as defined by Section 414(g) of the Internal Revenue Code.

HATBORO BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

- All public works employees hired on or after January 1, 2006.
- Employees hired on or after January 1, 2009.

(b) Entry Date - An eligible employee shall participate in the plan on the first day on which he meets the age and service requirements, provided he is employed on that date.

Cause: Borough officials failed to adopt adequate internal control procedures to ensure compliance with this department's prior audit recommendation.

Effect: The two former full-time employees have been denied the opportunity to receive pension benefits to which they may be entitled in accordance with the plan's governing document.

Recommendation: We again recommend that municipal officials review this audit finding with their municipal solicitor and the plan's actuary and take appropriate action to determine the borough's obligation to the two former full-time employees regarding pension benefits.

Management's Response: The current administration and council will make every effort to reach out to the two employees (who are no longer employed by the Borough) in writing to correct this finding.

Auditor's Conclusion: This finding repeats a condition that was cited in our prior two audit reports that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

HATBORO 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 22,102	\$ 35,419	\$ 33,620
Interest	-	113,810	121,905
Benefit payments, including refunds of member contributions	(44,856)	(45,666)	(138,621)
Net Change in Total Pension Liability	<u>(22,754)</u>	<u>103,563</u>	<u>16,904</u>
Total Pension Liability – Beginning	1,478,698	1,455,944	1,559,507
Total Pension Liability – Ending (a)	<u>\$ 1,455,944</u>	<u>\$ 1,559,507</u>	<u>\$ 1,576,411</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 802	\$ -	\$ -
Contributions – member	19,763	19,553	9,191
Investment income	52,527	85,430	104,889
Market value investment income	59,507	(73,537)	-
Benefit payments, including refunds of member contributions	(44,856)	(45,666)	(138,621)
Administrative expense	(13,499)	(16,342)	(5,070)
Net Change in Plan Fiduciary Net Position	<u>74,244</u>	<u>(30,562)</u>	<u>(29,611)</u>
Plan Fiduciary Net Position – Beginning	1,965,927	2,040,171	2,009,609
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,040,171</u>	<u>\$ 2,009,609</u>	<u>\$ 1,979,998</u>
Net Pension Liability (Asset) – Ending (a-b)	<u>\$ (584,227)</u>	<u>\$ (450,102)</u>	<u>\$ (403,587)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	140.1%	128.9%	125.6%
Estimated Covered Employee Payroll	\$ 376,255	\$ 376,255	\$ 365,390
Net Pension Liability (Asset) as a Percentage of Covered Employee Payroll	(155.3)%	(119.6)%	(110.5)%

HATBORO 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, 2017 AND 2018

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Service cost	\$ 25,988	\$ 27,287
Interest	108,696	116,337
Difference between expected and actual experience	(253,310)	-
Changes of assumptions	30,272	-
Benefit payments, including refunds of member contributions	<u>(41,326)</u>	<u>(39,619)</u>
Net Change in Total Pension Liability	(129,680)	104,005
Total Pension Liability – Beginning	<u>1,576,411</u>	<u>1,446,731</u>
Total Pension Liability – Ending (a)	<u>\$ 1,446,731</u>	<u>\$ 1,550,736</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ -	\$ -
Contributions – member	9,354	9,565
Investment income	298,081	-
Market value investment income	-	(128,486)
Benefit payments, including refunds of member contributions	<u>(41,326)</u>	<u>(39,619)</u>
Administrative expense	<u>(4,930)</u>	<u>(3,390)</u>
Net Change in Plan Fiduciary Net Position	261,179	(161,930)
Plan Fiduciary Net Position – Beginning	<u>1,979,998</u>	<u>2,241,177</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,241,177</u>	<u>\$ 2,079,247</u>
Net Pension Liability – Ending (a-b)	<u>\$ (794,446)</u>	<u>\$ (528,511)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	154.9%	134.1%
Estimated Covered Employee Payroll	\$ 368,777	\$ 344,583
Net Pension Liability as a Percentage of Covered Employee Payroll	(215.4)%	(153.4)%

HATBORO 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, 2016, 2017, and 2018, calculated using the discount rate of 8.0%, 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:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/16	\$ (195,090)	\$ (403,587)	\$ (632,446)
Net Pension Liability – 12/31/17	\$ (572,279)	\$ (794,446)	\$ (980,712)
Net Pension Liability – 12/31/18	\$ (296,588)	\$ (528,511)	\$ (723,734)

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	\$ -	\$ -	\$ -		
2010	-	-	-		
2011	5,483	5,483	-		
2012	-	110	(110)		
2013	-	-	-		
2014	-	802	(802)		
2015	-	-	-	\$ 376,255	0.0%
2016	-	-	-	365,390	0.0%
2017	-	-	-	368,777	0.0%
2018	-	-	-	344,583	0.0%

* 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 years prior to 2015.

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

SCHEDULE OF INVESTMENT RETURNS

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

2018	-5.73%
2017	13.74%
2016	4.97%
2015	-0.22%
2014	5.75%

HATBORO 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	\$ 1,738,830	\$ 1,251,601	\$ (487,229)	138.9%
01-01-15	2,040,171	1,455,944	(584,227)	140.1%
01-01-17	1,979,999	1,353,373	(626,626)	146.3%

HATBORO 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.

HATBORO 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	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.5%

HATBORO BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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