

# LIMITED PROCEDURES ENGAGEMENT

---

## Kittanning Borough Non-Uniformed Pension Plan Armstrong County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

---

January 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and Borough Council  
Kittanning Borough  
Armstrong County  
Kittanning, PA 16201

We conducted a Limited Procedures Engagement (LPE) of the Kittanning Borough Non-Uniformed Pension Plan for the period January 1, 2017 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 municipal officials took appropriate corrective action to address the findings contained in our prior LPE 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.
- 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 Kittanning Borough Non-Uniformed Pension Plan was not being administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Kittanning 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 20, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Status of Prior Findings .....	1
Supplementary Information .....	2
Report Distribution List .....	8

KITTANNING BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior LPE Report Recommendations

Kittanning Borough has complied with the prior LPE report recommendation concerning the following:

- Ineligible Employees Participating In The Pension Plan

As recommended, plan officials consulted with sewer authority officials and PMRS and effectively terminated the municipal authority employees' participation in the borough's non-uniformed pension plan as of March 2018; and

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

During the current engagement period, the borough reimbursed \$18,466 to the Commonwealth for the excess state aid received in 2015, 2016 and 2017. However, a similar issue occurred subsequent to the current period, impacting the borough's police pension plan and is disclosed in the police pension plan audit report.

KITTANNING 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, 2015, 2016, AND 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability				
Service cost	\$ 89,026	\$ 87,566	\$ 79,427	\$ 90,089
Interest (includes interest on service cost)	226,073	229,388	238,328	229,493
Difference between expected and actual experience	(69,078)	-	(222,799)	-
Changes of assumptions	-	53,839	102,478	-
Benefit payments, including refunds of member contributions	<u>(141,753)</u>	<u>(227,993)</u>	<u>(171,449)</u>	<u>(168,512)</u>
Net Change in Total Pension Liability	104,268	142,800	25,985	151,070
Total Pension Liability – Beginning	<u>4,091,322</u>	<u>4,195,590</u>	<u>4,338,390</u>	<u>4,364,375</u>
Total Pension Liability – Ending (a)	<u>\$ 4,195,590</u>	<u>\$ 4,338,390</u>	<u>\$ 4,364,375</u>	<u>\$ 4,515,445</u>
Plan Fiduciary Net Position				
Contributions – employer *	\$ 902	\$ 59,559	\$ 60,828	\$ 69,412
Contributions – PMRS assessment	-	-	40	600
Contributions – employee	23,749	24,031	23,184	24,329
PMRS investment income	216,738	223,401	227,086	237,909
Market value investment income	(28,096)	(218,794)	126,735	476,341
Benefit payments, including refunds of member contributions	(141,753)	(227,993)	(171,449)	(168,512)
PMRS administrative expense	(560)	(580)	(580)	(580)
Additional administrative expense	<u>(8,312)</u>	<u>(9,313)</u>	<u>(11,125)</u>	<u>(10,941)</u>
Net Change in Plan Fiduciary Net Position	62,668	(149,689)	254,719	628,558
Plan Fiduciary Net Position – Beginning	<u>3,971,115</u>	<u>4,033,783</u>	<u>3,884,094</u>	<u>4,138,813</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 4,033,783</u>	<u>\$ 3,884,094</u>	<u>\$ 4,138,813</u>	<u>\$ 4,767,371</u>
Net Pension Liability – Ending (a-b)	<u>\$ 161,807</u>	<u>\$ 454,296</u>	<u>\$ 225,562</u>	<u>\$ (251,926)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.14%	89.53%	94.83%	105.58%
Estimated Covered Employee Payroll	\$ 689,497	\$ 686,609	\$ 662,405	\$ 695,105
Net Pension Liability as a Percentage of Covered Employee Payroll	23.47%	66.17%	34.05%	(36.24%)

\* 2014 employer contributions consist of administrative expenses paid from actuarial surplus. In addition, for 2016 and 2017, employer contribution amounts include excess administrative contributions amounting to \$40 and \$20, respectively.

KITTANNING 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:

	<u>1% Decrease (4.5%)</u>	<u>Current Discount Rate (5.5%)</u>	<u>1% Increase (6.5%)</u>
Net Pension Liability – 12/31/14	\$ 617,069	\$ 161,807	\$ (235,019)
Net Pension Liability – 12/31/15	\$ 933,861	\$ 454,296	\$ 37,925

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	\$ 663,126	\$ 225,562	\$ (154,860)
Net Pension Liability – 12/31/17	\$ 200,784	\$ (251,926)	\$ (645,516)

KITTANNING 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	\$ -	\$ 902	\$ (902)	\$ 689,497	0.13%
2015	59,559	59,559	-	686,609	8.67%
2016	60,828	60,868	(40)	662,405	9.19%
2017	69,992	70,012	(20)	695,105	10.07%
2018	63,974	63,994	(20)	*	

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



KITTANNING 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	\$ 3,944,015	\$ 3,912,010	\$ (32,005)	100.8%
01-01-15	4,122,977	4,195,590	72,613	98.3%
01-01-17	4,436,313	4,364,375	(71,938)	101.6%

KITTANNING 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.

KITTANNING 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.

KITTANNING 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 Scott Kline**  
Mayor

**Ms. Kimberly Fox**  
Council President, Ward 3

**Mr. Scott Davis**  
Councilmember, Ward 2

**Mr. David Croyle**  
Councilmember, Ward 1

**Ms. Betsy Wilt**  
Councilmember, Ward 1

**Mr. Chris Schiano**  
Councilmember, Ward 2

**Mr. Joseph Kiehlmeier**  
Councilmember, Ward 3

**Mr. Mike Johns**  
Councilmember, Ward 4

**Ms. Cynthia McDermott**  
Borough Manager

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).