

# LIMITED PROCEDURES ENGAGEMENT

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## Martinsburg Borough Non-Uniformed Pension Plan Blair County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

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October 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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AUDITOR GENERAL

The Honorable Mayor and Borough Council  
Martinsburg Borough  
Blair County  
Martinsburg, PA 16662

We conducted a Limited Procedures Engagement (LPE) of the Martinsburg Borough Non-Uniformed Pension Plan for the period January 1, 2016 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 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 Martinsburg 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 Implement Mandatory Provisions Of Act 205

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 Martinsburg 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.

October 17, 2019



EUGENE A. DEPASQUALE  
Auditor General

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MARTINSBURG BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Implement Mandatory Provisions Of Act 205**

Condition: During the prior engagement, plan officials were notified via observation of the passage of Act 44 of 2009, which effectively amended Act 205 for the procurement of professional services contracts, and recommending that the borough adopt the mandatory provisions, accordingly. However, during the current engagement period, the municipality again failed to adopt such mandatory provisions.

Criteria: Section 701-A of Act 205, as amended by Act 44, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

**Review.** Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

**Conflict of interest.** The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

**Public information.** Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

MARTINSBURG BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

**Notice and summary.** The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states in part:

Upon advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Cause: Plan officials failed to establish adequate procedures to ensure compliance with provisions of Act 205 as previously recommended.

Effect: The borough's failure to comply in all respects with the provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the borough's pension plan could result in a general lack of overall transparency of the actions taken by plan officials relative to the awarding of future investment and advisory service contracts for the borough's pension plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions which should include the maintaining of appropriate and sufficient supporting documentation evidencing every phase of the process to ensure the transparency of the actions taken by plan officials relative to the awarding of any future professional services contracts for its pension plan.

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

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

MARTINSBURG 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	\$ 25,441	\$ 25,798
Interest	35,312	37,794
Difference between expected and actual experience	(11,782)	-
Changes of assumptions	-	(2,330)
Benefit payments, including refunds of member contributions	(3,756)	(3,756)
Net Change in Total Pension Liability	<u>45,215</u>	<u>57,506</u>
Total Pension Liability – Beginning	<u>622,796</u>	<u>668,011</u>
Total Pension Liability – Ending (a)	<u><u>\$ 668,011</u></u>	<u><u>\$ 725,517</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 15,998	\$ 19,597
Contributions – PMRS assessment	-	180
Contributions – employee	8,582	9,476
PMRS investment income	32,982	35,972
Market value investment income	(2,000)	(40,153)
Benefit payments, including refunds of member contributions	(3,756)	(3,756)
PMRS Administrative expense	(180)	(180)
Additional administrative expense	(1,265)	(1,500)
Net Change in Plan Fiduciary Net Position	<u>50,361</u>	<u>19,636</u>
Plan Fiduciary Net Position – Beginning	<u>588,022</u>	<u>638,383</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 638,383</u></u>	<u><u>\$ 658,019</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 29,628</u></u>	<u><u>\$ 67,498</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.56%	90.70%
Estimated Covered Employee Payroll	\$ 247,772	\$ 238,486
Net Pension Liability as a Percentage of Covered Employee Payroll	11.96%	28.30%

MARTINSBURG 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	\$ 26,862	\$ 30,955
Interest	40,971	43,288
Difference between expected and actual experience	(9,626)	-
Changes of assumptions	22,529	-
Benefit payments, including refunds of member contributions	(3,756)	(3,756)
Net Change in Total Pension Liability	<u>76,980</u>	<u>70,487</u>
Total Pension Liability – Beginning	725,517	802,497
Total Pension Liability – Ending (a)	<u>\$ 802,497</u>	<u>\$ 872,984</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 19,191	\$ 19,309
Contributions – PMRS assessment	180	200
Contributions – employee	11,046	13,935
Net investment income	39,428	41,185
Market value investment income	14,693	90,418
Benefit payments, including refunds of member contributions	(3,756)	(3,756)
PMRS administrative expense	(180)	(200)
Additional administrative expense	(1,932)	(1,894)
Net Change in Plan Fiduciary Net Position	<u>78,670</u>	<u>159,197</u>
Plan Fiduciary Net Position – Beginning	658,019	736,689
Plan Fiduciary Net Position – Ending (b)	<u>\$ 736,689</u>	<u>\$ 895,886</u>
Net Pension Liability – Ending (a-b)	<u>\$ 65,808</u>	<u>\$ (22,902)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.80%	102.62%
Estimated Covered Employee Payroll	\$ 245,611	\$ 247,225
Net Pension Liability as a Percentage of Covered Employee Payroll	26.79%	(9.26%)



MARTINSBURG 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 (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability – 12/31/14	\$ 118,016	\$ 29,628	\$ (47,123)
Net Pension Liability – 12/31/15	\$ 160,552	\$ 67,498	\$ (13,052)

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	\$ 153,691	\$ 65,808	\$ (11,071)
Net Pension Liability – 12/31/17	\$ 72,700	\$ (22,902)	\$ (106,534)

MARTINSBURG 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	\$ 14,679	\$ 15,998	\$ (1,319)	\$ 247,772	6.46%
2015	19,777	19,777	-	238,486	8.29%
2016	19,371	19,371	-	245,611	7.89%
2017	19,509	19,509	-	247,225	7.89%
2018	19,633	19,633	-	-	-

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

MARTINSBURG 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	\$ 545,354	\$ 571,097	\$ 25,743	95.5%
01-01-15	648,527	668,011	19,484	97.1%
01-01-17	777,367	802,497	25,130	96.9%

MARTINSBURG 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.

MARTINSBURG 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	9 years
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

MARTINSBURG BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

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