

LIMITED PROCEDURES ENGAGEMENT

Marysville Borough Non-Uniformed Pension Plan Perry County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

January 2018



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
Marysville Borough
Perry County
Marysville, PA 17053

We conducted a Limited Procedures Engagement (LPE) of the Marysville Borough Non-Uniformed Pension Plan for the period January 1, 2013 to December 31, 2016 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 finding contained in our prior audit 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 in 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, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, respectively, in accordance with Act 205 and whether selected information provided on these report 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 Marysville 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 Pension Benefit Calculation

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 Marysville 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 17, 2018



EUGENE A. DEPASQUALE
Auditor General

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MARYSVILLE BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Marysville Borough has complied with the prior audit recommendation concerning the following:

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

During the current engagement period, municipal officials accurately reported the required non-uniformed pension data on Certification Forms AG 385.

MARYSVILLE BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Pension Benefit Calculation

Condition: The pension benefit for a member of the pension plan who was vested and began receiving benefit payments on April 1, 2014, was incorrectly determined because municipal officials failed to accurately provide the member's final monthly compensation to the actuary to be utilized in calculating the benefit in accordance with the plan's governing document at the time of vesting.

Criteria: Ordinance No. 492, at Section 8, states, in part:

Basic Benefits – The basic monthly benefit shall be equal to two percent (2.0%) of the monthly average compensation of such member during the highest three (3) consecutive compensated years of employment, multiplied by the number of years of service completed by such member at his retirement date...

In addition, Ordinance No. 492, at Section 10, states:

If a member before reaching his normal retirement date and after having completed ten (10) years of total service for any reason ceases to be employed by the Borough as a non-uniformed employee, he shall be entitled to a deferred monthly pension benefit payable at his normal retirement date. The deferred monthly benefit shall be equal to such member's accrued benefit as of his date of termination.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the pension benefit was properly determined in accordance with the plan's governing document.

Effect: The plan is paying pension benefits to a retiree in excess of those authorized by the plan's governing document. As of the date of this report, the retiree is receiving excess benefits of \$88.55 per month, which totaled approximately \$4,073 from retirement until the date of this report.

Recommendation: We recommend that municipal officials adjust the retiree's pension benefit in accordance with the provisions contained in the plan's governing document.

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

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

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

The supplementary information contained on Pages 3 and 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	\$ 49,882	\$ 58,923
Interest	87,691	102,377
Difference between expected and actual experience	169,411	-
Changes of assumptions	-	(12,283)
Transfers	-	65,241
Benefit payments, including refunds of member contributions	(78,738)	(83,435)
Net Change in Total Pension Liability	<u>228,246</u>	<u>130,823</u>
Total Pension Liability - Beginning	<u>1,584,303</u>	<u>1,812,549</u>
Total Pension Liability - Ending (a)	<u><u>\$ 1,812,549</u></u>	<u><u>\$ 1,943,372</u></u>
Plan Fiduciary Net Position		
Contributions - employer*	\$ 43,048	\$ 69,584
Contribution - employee	4,823	4,956
PMRS investment income	67,859	75,107
Market value investment income	(15,502)	(91,199)
Transfers	-	65,241
Benefit payments, including refunds of member contributions	(78,738)	(83,435)
PMRS Administrative expense	(260)	(260)
Additional administrative expense	(2,602)	(3,131)
Net Change in Plan Fiduciary Net Position	<u>18,628</u>	<u>36,863</u>
Plan Fiduciary Net Position - Beginning	<u>1,333,346</u>	<u>1,351,974</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,351,974</u></u>	<u><u>\$ 1,388,837</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 460,575</u></u>	<u><u>\$ 554,535</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.59%	71.47%
Estimated Covered Employee Payroll	\$ 294,406	\$ 330,352
Net Pension Liability as a Percentage of Covered Employee Payroll	156.44%	167.86%

* 2014 employer contributions include \$260 administrative expenses and \$189 allocated insurance premiums.

MARYSVILLE 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:

	1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
	<hr/>	<hr/>	<hr/>
Net Pension Liability - 12/31/14	\$ 688,367	\$ 460,575	\$ 268,378
Net Pension Liability - 12/31/15	\$ 788,616	\$ 554,535	\$ 357,131

MARYSVILLE 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, 2011, 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)
01-01-11	\$ 1,138,057	\$ 1,115,725	\$ (22,332)	102.0%
01-01-13	1,232,666	1,469,606	236,940	83.9%
01-01-15	1,393,288	1,812,549	419,261	76.9%

MARYSVILLE 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.

MARYSVILLE 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
2011	\$ 36,557	100.3%
2012	25,577	109.1%
2013	34,432	108.3%
2014	34,674	122.9%
2015	69,584	100.0%
2016	68,338	100.0%

MARYSVILLE 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	5.5%, net of expenses
Projected salary increases *	Age-related scale for merit/ seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%)
Cost-of-living adjustments	3.0%, where applicable

* Includes inflation at 3.0%

MARYSVILLE 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 Deborah Troutman
Mayor

Mr. Stephen Copp
Council President

Mr. Scott Weaver
Borough Manager

Ms. Kim Charles
Administrative Assistant

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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