

COMPLIANCE AUDIT

Media Borough Non-Uniformed Pension Plan Delaware County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

July 2019



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
Media Borough
Delaware County
Media, PA 19063

We have conducted a compliance audit of the Media 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 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 the lone 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 these amounts to supporting documentation evidencing amounts 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.
- We determined whether the terms of the contractual agreement with the Pennsylvania State Association of Boroughs were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

Media 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 Media 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 Media 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 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

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

June 26, 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 Media 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 Media Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 850, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established April 21, 1966. Eligibility for this pension plan shall be closed for any non-union employee of the borough hired on or after July 1, 2013, and for any union employee of the borough hired on or after January 1, 2014. Active members are required to contribute 6.5 percent of compensation to the plan. As of December 31, 2018, the plan had 13 active members, 2 terminated members eligible for vested benefits in the future, and 9 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	For Public Works Employees, the earlier of age 62 or age 60 with 35 years of service; all others age 62.
Early Retirement	None
Vesting	100% vesting available immediately upon plan participation.

Retirement Benefit:

A monthly benefit equal to 2.0% of Average Monthly Compensation (total pay averaged over last 12 months) multiplied by years of service. Maximum benefit is 70% of Average Monthly Compensation.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	The normal form of payment is a life annuity with 120 monthly payments guaranteed. Optional forms of benefit payments are available at the election of the participant and are calculated as actuarially equivalent to the normal form.

Service Related Disability Benefit:

For total and permanent disablement and qualification for social security disability benefits, the accrued benefit at date of disablement will be payable 6 months following disablement and will continue for the lifetime of the participant.

MEDIA BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: The borough certified an ineligible police officer (2 units) and overstated payroll by \$158,671 on the Certification Form AG 385 filed in 2016. In addition, the borough failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$98,601 on the Certification Form AG 385 filed in 2017. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough’s state aid allocations were based on unit value, the borough received an overpayment of state aid as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2016	Police	2	\$ 4,374.65	\$ 8,749
2017	Non-Uniformed	(1)	4,588.25	<u>(4,588)</u>
Net Overpayment of State Aid				<u>\$ 4,161</u>

In addition, the borough used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the borough’s pension plans; therefore, if the reimbursement to the Commonwealth is made from a pension plan, the plan’s MMO will not be fully paid.

MEDIA BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$4,161, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

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

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

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

The supplementary information contained on Pages 5 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 88,040	\$ 72,127
Interest	406,888	401,296
Difference between expected and actual experience	-	(316,836)
Benefit payments, including refunds of member contributions	<u>(268,710)</u>	<u>(208,840)</u>
Net Change in Total Pension Liability	226,218	(52,253)
Total Pension Liability – Beginning	5,656,204	5,882,422
Total Pension Liability – Ending (a)	<u>\$ 5,882,422</u>	<u>\$ 5,830,169</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 123,674	\$ 134,263
Contributions – State aid	78,143	60,754
Contributions – member	45,289	46,466
Net investment income	315,581	(65,710)
Benefit payments, including refunds of member contributions	<u>(268,710)</u>	<u>(208,840)</u>
Administrative expense	<u>(31,580)</u>	<u>(5,548)</u>
Net Change in Plan Fiduciary Net Position	262,397	(38,615)
Plan Fiduciary Net Position – Beginning	5,278,398	5,540,795
Plan Fiduciary Net Position – Ending (b)	<u>\$ 5,540,795</u>	<u>\$ 5,502,180</u>
Net Pension Liability – Ending (a-b)	<u>\$ 341,627</u>	<u>\$ 327,989</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.19%	94.37%
Estimated Covered Employee Payroll	\$ 821,075	\$ 809,503
Net Pension Liability as a Percentage of Covered Employee Payroll	41.61%	40.52%

MEDIA 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	\$ 75,733	\$ 84,622
Interest	420,638	409,929
Difference between expected and actual experience	-	(541,702)
Changes of assumptions	-	512,631
Benefit payments, including refunds of member contributions	(211,721)	(197,920)
Net Change in Total Pension Liability	<u>284,650</u>	<u>267,560</u>
Total Pension Liability – Beginning	5,830,169	6,114,819
Total Pension Liability – Ending (a)	<u>\$ 6,114,819</u>	<u>\$ 6,382,379</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 59,791	\$ 100,748
Contributions – State aid	89,635	47,702
Contributions – member	47,723	48,137
Net investment income	219,995	715,215
Benefit payments, including refunds of member contributions	(211,721)	(197,920)
Administrative expense	(2,785)	(7,055)
Net Change in Plan Fiduciary Net Position	<u>202,638</u>	<u>706,827</u>
Plan Fiduciary Net Position – Beginning	5,502,180	5,704,818
Plan Fiduciary Net Position – Ending (b)	<u>\$ 5,704,818</u>	<u>\$ 6,411,645</u>
Net Pension Liability – Ending (a-b)	<u>\$ 410,001</u>	<u>\$ (29,266)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.29	100.46%
Estimated Covered Employee Payroll	\$ 817,622	\$ 844,064
Net Pension Liability as a Percentage of Covered Employee Payroll	50.15%	(3.47%)

MEDIA 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, 2015, and 2016, calculated using the discount rate of 7.25%, 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:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability – 12/31/14	\$ 906,862	\$ 341,627	\$ (148,512)
Net Pension Liability – 12/31/15	\$ 847,448	\$ 327,989	\$ 123,529
Net Pension Liability – 12/31/16	\$ 924,124	\$ 410,001	\$ (36,854)

In addition, the following presents the net pension liability of the borough as of December 31, 2017, calculated using the discount rate of 6.75%, 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 (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability – 12/31/17	\$ 575,102	\$ (29,266)	\$ (548,288)

MEDIA 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
2009	\$ 95,176	\$ 95,176	\$ -		
2010	95,571	95,571	-	\$1,028,372	9.29%
2011	137,810	127,069	10,741		
2012	128,139	128,139	-	824,894	15.53%
2013	158,937	158,937	-		
2014	197,558	201,817	(4,259)	821,075	24.58%
2015	195,017	195,017	-	809,503	24.09%
2016	149,426	149,426	-	817,622	18.28%
2017	148,450	148,450	-	844,064	17.59%
2018	57,493	57,493	-		

* 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 odd years prior to 2014. In addition, due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

For 2011, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

SCHEDULE OF INVESTMENT RETURNS

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

2017	13.23%
2016	4.63%
2015	(0.63%)
2014	6.07%

MEDIA 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	\$ 5,018,748	\$ 5,640,978	\$ 622,230	89.0%
01-01-15	5,373,144	5,565,586	192,442	96.5%
01-01-17	6,040,960	6,085,748	44,788	99.3%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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.

MEDIA 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.

MEDIA 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
Remaining amortization period	1 year
Asset valuation method	Fair value, 4 year smoothing
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.25%
Cost-of-living adjustments	None assumed

MEDIA BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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