

COMPLIANCE AUDIT

Media Borough Police 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



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
Media Borough
Delaware County
Media, PA 19064

We have conducted a compliance audit of the Media Borough Police 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 all 4 of the plan members 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

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 Police 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 elected 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 Police 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 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 Media Borough Police 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 including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Media Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 691, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established January 1, 1957. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 12 active members, no terminated members eligible for vested benefits in the future, and 10 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 50 and 25 years of service
Early Retirement	20 years of service
Vesting	100% vesting available after 12 years of service

Retirement Benefit:

A monthly benefit equal to 50% of gross pay averaged over the last 36 months of employment, plus a service increment of \$100 for completion of 26 years of service, \$200 for completion of 27 years of service, and \$250 for 28 or more years of service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death. The monthly survivor benefits are payable to the participant's spouse for life. If there is no spouse or the spouse later dies, the benefit will be paid to the participant's dependent children, if any, until age 18, or age 23 if attending college.

Service Related Disability Benefit:

For total and permanent disablement, a monthly benefit equal to 70% of the member's previous 12 month salary. If unable to work in any capacity and granted Social Security disability benefits, a monthly benefit equal to 100% of previous 12 month salary. Benefit is offset by any worker's compensation benefits received. Benefit is no less than 50% of the member's salary at time of disability offset by Social Security disability benefits received for the same injury or illness.

MEDIA BOROUGH POLICE 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), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

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 POLICE 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 POLICE 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	\$ 249,567	\$ 245,599
Interest	811,445	878,981
Difference between expected and actual experience	-	206,719
Benefit payments, including refunds of member contributions	<u>(305,729)</u>	<u>(359,680)</u>
Net Change in Total Pension Liability	755,283	971,619
Total Pension Liability – Beginning	11,092,964	11,848,247
Total Pension Liability – Ending (a)	<u>\$ 11,848,247</u>	<u>\$ 12,819,866</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 550,624	\$ 511,925
Contributions – state aid	100,000	100,000
Contributions – member	71,994	76,372
Net investment income	542,895	(113,645)
Benefit payments, including refunds of member contributions	<u>(305,729)</u>	<u>(359,680)</u>
Administrative expense	<u>(51,338)</u>	<u>(6,421)</u>
Net Change in Plan Fiduciary Net Position	908,446	208,551
Plan Fiduciary Net Position – Beginning	9,042,685	9,951,131
Plan Fiduciary Net Position – Ending (b)	<u>\$ 9,951,131</u>	<u>\$ 10,159,682</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,897,116</u>	<u>\$ 2,660,184</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.99%	79.25%
Estimated Covered Employee Payroll	\$ 1,433,676	\$ 1,506,925
Net Pension Liability as a Percentage of Covered Employee Payroll	132.33%	176.53%

MEDIA BOROUGH POLICE 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	\$ 257,879	\$ 313,852
Interest	928,810	985,194
Difference between expected and actual experience	-	(145,994)
Changes of assumptions	-	1,157,723
Benefit payments, including refunds of member contributions	(542,630)	(394,522)
Net Change in Total Pension Liability	<u>644,059</u>	<u>1,916,253</u>
Total Pension Liability – Beginning	12,819,866	13,463,925
Total Pension Liability – Ending (a)	<u>\$ 13,463,925</u>	<u>\$ 15,380,178</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 620,801	\$ 590,339
Contributions – State aid	94,100	131,240
Contributions – member	81,769	86,187
Net investment income	405,935	1,363,623
Benefit payments, including refunds of member contributions	(542,630)	(394,522)
Administrative expense	(2,977)	(6,110)
Net Change in Plan Fiduciary Net Position	<u>656,998</u>	<u>1,770,757</u>
Plan Fiduciary Net Position – Beginning	10,159,682	10,816,680
Plan Fiduciary Net Position – Ending (b)	<u>\$ 10,816,680</u>	<u>\$ 12,587,437</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,647,245</u>	<u>\$ 2,792,741</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.34%	81.84%
Estimated Covered Employee Payroll	\$ 1,618,388	\$ 1,821,275
Net Pension Liability as a Percentage of Covered Employee Payroll	163.57%	153.34%

MEDIA BOROUGH POLICE 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, 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:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Net Pension Liability – 12/31/15	\$ 4,206,911	\$ 2,660,184	\$ 1,364,194
Net Pension Liability – 12/31/16	\$ 4,232,146	\$ 2,647,245	\$ 1,317,900

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:

	<u>1% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net Pension Liability – 12/31/17	\$ 4,775,013	\$ 2,792,741	\$ 1,150,569

MEDIA BOROUGH POLICE 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	\$ 410,021	\$ 410,021	\$ -		
2010	389,029	389,029	-	\$ 1,428,973	27.22%
2011	495,395	420,285	75,110		
2012	504,891	504,891	-	1,556,630	32.43%
2013	564,183	564,183	-		
2014	636,364	650,624	(14,260)	1,433,676	45.38%
2015	611,925	611,925	-	1,506,925	40.61%
2016	714,901	714,901	-	1,618,388	44.17%
2017	721,579	721,579	-	1,821,275	39.62%
2018	954,739	954,739	-		

* 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	4.60%
2015	(0.62%)
2014	6.09%

MEDIA BOROUGH POLICE 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	\$ 7,803,596	\$ 10,356,555	\$ 2,552,959	75.3%
01-01-15	9,703,579	12,054,966	2,351,387	80.5%
01-01-17	11,420,173	14,475,654	3,055,481	78.9%

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 POLICE 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 POLICE 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	5 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.75%
Cost-of-living adjustments	Retirees will receive an increase equal to the percentage change in the Philadelphia Area Consumer Price Index.

MEDIA BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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