

LIMITED PROCEDURES ENGAGEMENT

Middleburg Borough Police Pension Plan Snyder County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

January 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
Middleburg Borough
Snyder County
Middleburg, PA 17842

We conducted a Limited Procedures Engagement (LPE) of the Middleburg Borough Police Pension Plan for the period January 1, 2014 to December 31, 2017 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 the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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 Middleburg Borough Police 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 findings further discussed later in this report:

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Finding No. 2 – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

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 Middleburg 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 8, 2019



EUGENE A. DEPASQUALE
Auditor General

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MIDDLEBURG BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: The borough certified an ineligible non-uniformed employee (1 unit) and overstated payroll by \$8,261 on the Certification Form AG 385 filed in 2015. In addition, the borough failed to certify an eligible police officer (2 units) and understated payroll by \$33,740 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 pension costs, the borough received a total net underpayment of state aid as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Normal Cost</u>	<u>Payroll Overstated (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2015	Non-Uniformed	4.99%	\$ 8,261	\$ 412
2017	Police	15.15%	\$ (33,740)	<u>(5,112)</u>
Net Underpayment of State Aid				<u>\$ (4,700)</u>

Although the borough will be reimbursed for the total underpayment of state aid due to the borough’s certification errors, the full amount of the 2017 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We 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.

MIDDLEBURG BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Auditor’s Conclusion: Compliance will be evaluated during the next plan engagement.

Finding No. 2 – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not properly determine or fully pay the minimum municipal obligation (MMO) of the police pension plan for the year 2017, as required by Act 205. The MMO determined by the municipality understated payroll by \$33,740. Based upon an estimate prepared by this department, the municipality had an unpaid MMO balance amounting to \$4,641 for the year 2017.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

With regard to the payroll estimate used in the preparation of the MMO, the Pennsylvania Code, Title 16, Section 204.1(c)(1) states, in part:

The payroll used in determining the minimum municipal obligation of a pension plan under section 302(c) of the act shall be based on the payroll to be reported on the Internal Revenue Service Form W-2 and shall be calculated as the total payroll for active members of the plan as of the date of the determination, plus the payroll for the same active members of the plan projected to the year’s end using the payroll rates in effect as of the date of the determination.

In addition, Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

MIDDLEBURG BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: There was a recent turnover in plan officials responsible for administration of the pension plan and current plan officials were unsure as to why the borough did not comply with the Act 205 requirements.

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2017 MMO by the December 31, 2017, deadline, the municipality must add the 2017 MMO balance to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the outstanding MMO due to the police pension plan amounting to \$4,641, for the year 2017, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Furthermore, we recommend that, in the future, plan officials properly determine the amount of compensation to be used in the MMO calculation.

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

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

MIDDLEBURG BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 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	\$ 16,864	\$ 16,951
Interest	50,067	51,443
Difference between expected and actual experience	(29,599)	-
Changes of assumptions	-	(21,253)
Benefit payments, including refunds of member contributions	(12,495)	(12,319)
Net Change in Total Pension Liability	<u>24,837</u>	<u>34,822</u>
Total Pension Liability – Beginning	899,615	924,452
Total Pension Liability – Ending (a)	<u>\$ 924,452</u>	<u>\$ 959,274</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 11,549	\$ 13,327
Contributions – PMRS assessment	-	-
PMRS investment income	50,808	53,716
Market value investment income	(1,480)	(56,009)
Benefit payments, including refunds of member contributions	(12,495)	(12,319)
PMRS administrative expense	(80)	(100)
Additional administrative expense	(1,948)	(2,239)
Net Change in Plan Fiduciary Net Position	<u>46,354</u>	<u>(3,624)</u>
Plan Fiduciary Net Position – Beginning	912,641	958,995
Plan Fiduciary Net Position – Ending (b)	<u>\$ 958,995</u>	<u>\$ 955,371</u>
Net Pension Liability – Ending (a-b)	<u>\$ (34,543)</u>	<u>\$ 3,903</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	103.74%	99.59%
Estimated Covered Employee Payroll	\$ 113,515	\$ 112,412
Net Pension Liability as a Percentage of Covered Employee Payroll	(30.43%)	3.47%

* 2014 contributions includes actuarial surplus used for disability insurance premiums of \$96 and administrative expenses of \$80.

MIDDLEBURG 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	\$ 16,018	\$ 20,602
Interest	53,307	53,198
Difference between expected and actual experience	(39,683)	-
Changes of assumptions	22,184	-
Benefit payments, including refunds of member contributions	<u>(12,319)</u>	<u>(12,319)</u>
Net Change in Total Pension Liability	39,507	61,481
Total Pension Liability – Beginning	<u>959,274</u>	<u>998,781</u>
Total Pension Liability – Ending (a)	<u>\$ 998,781</u>	<u>\$ 1,060,262</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 14,344	\$ 12,928
Contributions – PMRS assessment	20	-
PMRS investment income	56,931	55,553
Market value investment income	(11,451)	120,726
Benefit payments, including refunds of member contributions	(12,319)	(12,319)
PMRS administrative expense	(80)	(100)
Additional administrative expense	<u>(2,789)</u>	<u>(2,555)</u>
Net Change in Plan Fiduciary Net Position	44,656	174,233
Plan Fiduciary Net Position – Beginning	<u>955,371</u>	<u>1,000,027</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,000,027</u>	<u>\$ 1,174,260</u>
Net Pension Liability – Ending (a-b)	<u>\$ (1,246)</u>	<u>\$ (113,998)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	100.12%	110.75%
Estimated Covered Employee Payroll	\$ 133,710	\$ 158,766
Net Pension Liability as a Percentage of Covered Employee Payroll	(0.93%)	(71.80%)

MIDDLEBURG 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, 2014 and 2015, calculated using the discount rate of 5.50%, 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	\$ 79,689	\$ (34,543)	\$ (128,434)
Net Pension Liability – 12/31/15	\$ 98,033	\$ 3,903	\$ (73,714)

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	\$ 98,435	\$ (1,246)	\$ (84,307)
Net Pension Liability – 12/31/17	\$ (8,182)	\$ (113,998)	\$ (202,172)

MIDDLEBURG 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	\$ 877,369	\$ 848,525	\$ (28,844)	103.4%
01-01-15	975,626	924,452	(51,174)	105.5%
01-01-17	1,056,774	998,781	(57,993)	105.8%

MIDDLEBURG 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.

MIDDLEBURG BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 6,598	100.0%
2013	9,631	100.0%
2014	8,090	140.6%
2015	13,327	100.0%
2016	14,344	100.0%
2017	17,569	*73.6%

** refer to Finding No. 2 contained in this report.*

MIDDLEBURG 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	None
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

MIDDLEBURG BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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