

LIMITED PROCEDURES ENGAGEMENT

Millersburg Borough Non-Uniformed Pension Plan Dauphin 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
Millersburg Borough
Dauphin County
Millersburg PA 17061

We conducted a Limited Procedures Engagement (LPE) of the Millersburg Borough Non-Uniformed 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 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, 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 Millersburg 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 Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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 Millersburg 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 3, 2019



EUGENE A. DEPASQUALE
Auditor General

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MILLERSBURG BOROUGH NON-UNIFORME PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In Underpayment Of State Aid

Condition: The borough failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$4,010 on the Certification Form AG 385 filed in 2017. The data contained on this certification form(s) 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 this certification form 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 allocation was based on pension costs, the borough received an underpayment of state aid as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2017	8.93%	\$ 4,010	\$ 358

Although the borough will be reimbursed for the underpayment of state aid due to the borough’s certification error, 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.

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

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

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

The supplementary information contained on Pages 2 through 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	\$ 23,022	\$ 23,227
Interest	32,284	34,234
Difference between expected and actual experience	11,374	-
Changes of assumptions	-	14,640
Benefit payments, including refunds of member contributions	<u>(31,500)</u>	<u>(31,500)</u>
Net Change in Total Pension Liability	35,180	40,601
Total Pension Liability – Beginning	582,494	617,674
Total Pension Liability – Ending (a)	<u>\$ 617,674</u>	<u>\$ 658,275</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 19,650	\$ 24,209
Contributions – PMRS assessment	-	220
Contributions- employee	5,911	5,756
PMRS investment income	27,033	28,554
Market value investment income	4,591	(26,282)
Benefit payments, including refunds of member contributions	(31,500)	(31,500)
PMRS administrative expense	(220)	(220)
Additional administrative expenses	<u>(1,037)</u>	<u>(1,190)</u>
Net Change in Plan Fiduciary Net Position	24,428	(453)
Plan Fiduciary Net Position – Beginning	495,139	519,567
Plan Fiduciary Net Position – Ending	<u>\$ 519,567</u>	<u>\$ 519,114</u>
Net Pension Liability – Ending (a-b)	<u>\$ 98,107</u>	<u>\$ 139,161</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.12%	78.86%
Estimated Covered Employee Payroll	\$ 192,540	\$ 197,837
Net Pension Liability as a Percentage of Covered Employee Payroll	50.95%	70.34%

MILLERSBURG 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	\$ 20,098	\$ 23,436
Interest	36,334	35,803
Difference between expected and actual experience	(27,444)	-
Changes of assumptions	19,735	-
Benefit payments, including refunds of member contributions	<u>(31,500)</u>	<u>(30,065)</u>
Net Change in Total Pension Liability	17,223	29,174
Total Pension Liability – Beginning	<u>658,275</u>	<u>675,498</u>
Total Pension Liability – Ending (a)	<u>\$ 675,498</u>	<u>\$ 704,672</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 26,388	\$ 24,878
Contributions – PMRS assessment	240	220
Contributions – employee	4,381	4,214
PMRS investment income	30,237	30,578
Market value investment income	17,797	69,306
Benefit payments, including refunds of member contributions	(31,500)	(30,065)
PMRS administrative expense	(220)	(220)
Additional administrative expenses	<u>(1,481)</u>	<u>(1,406)</u>
Net Change in Plan Fiduciary Net Position	45,842	97,505
Plan Fiduciary Net Position – Beginning	<u>519,114</u>	<u>564,956</u>
Plan Fiduciary Net Position – Ending	<u>\$ 564,956</u>	<u>\$ 662,461</u>
Net Pension Liability – Ending (a-b)	<u>\$ 110,542</u>	<u>\$ 42,211</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.64%	94.01%
Estimated Covered Employee Payroll	\$ 172,516	\$ 200,542
Net Pension Liability as a Percentage of Covered Employee Payroll	64.08%	21.05%

MILLERSBURG 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 5.50%, 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	\$ 177,188	\$ 98,107	\$ 31,383
Net Pension Liability - 12/31/15	\$ 224,181	\$ 139,161	\$ 67,464

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	\$ 198,773	\$ 110,542	\$ 36,512
Net Pension Liability - 12/31/17	\$ 134,253	\$ 42,211	\$ (35,016)

MILLERSBURG 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	\$ 501,288	\$ 561,244	\$ 59,956	89.3%
01-01-15	534,035	617,674	83,639	86.5%
01-01-17	609,512	675,498	65,986	90.2%

MILLERSBURG 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.

MILLERSBURG 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
2012	\$ 20,460	100.1%
2013	19,763	100.0%
2014	19,650	100.0%
2015	24,429	100.0%
2016	25,172	105.7%
2017	25,098	100.0%

MILLERSBURG 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	44 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

MILLERSBURG BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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