

COMPLIANCE AUDIT

Mount Carmel Borough Non-Uniformed Pension Plan Northumberland County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

December 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
Mount Carmel Borough
Northumberland County
Mount Carmel, PA 17891

We have conducted a compliance audit of the Mount Carmel 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and
2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for all four of the plan members 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 retired individuals 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Mount Carmel 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 Mount Carmel 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 – Noncompliance With Prior Audit Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 Mount Carmel Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

November 26, 2019



EUGENE A. DEPASQUALE
Auditor General

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ABBREVIATION

PSABMRT - Pennsylvania State Association Of Boroughs Municipal Retirement Trust

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 Mount Carmel 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 Mount Carmel Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 4-91, as amended. The plan was established January 1, 1991. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 9 active members, 8 terminated members eligible for vested benefits in the future, and 11 retirees receiving pension benefits.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 65 and 5 years of service.
Early Retirement	Age 55 and 5 years of service.
Vesting	100% vesting available after 5 years of service.

Retirement Benefit:

Benefit equals 1.5% of 60 month average compensation times years of service (maximum 30 years). Benefits accruals were unfrozen as of January 1, 2017.

Survivor Benefit:

If the employee is vested, the spouse receives 50% of the benefit the employee would have received had he/she terminated on the first day of the month of his/her death and elected a Joint & Survivor annuity.

Service Related Disability Benefit:

After 5 years – monthly accrued benefit at time of disability.

MOUNT CARMEL BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Mount Carmel Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

MOUNT CARMEL BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the prior two audit reports, plan officials did not properly determine or fully pay the minimum municipal obligation (MMO) of the non-uniformed pension plan for the years 2011, 2012, 2013, and 2014, as required by Act 205. The MMO's determined by the municipality understated the amortization requirement by \$7,208 for the year 2011, and \$1,360 for the years 2012, 2013, and 2014. Based upon an estimate prepared by this department, the municipality had a total unpaid MMO balance of \$11,288 for the applicable years.

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.

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.

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: Plan officials failed to adopt adequate internal control procedures to ensure compliance with this department's prior audit recommendation during the current audit period.

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.

MOUNT CARMEL BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Due to the municipality's failure to fully pay the 2011, 2012, 2013, and 2014 MMO's by the appropriate December 31, deadlines, the municipality must add the outstanding MMO balances to the current year's MMO and include interest, as required by Act 205.

Recommendation: We again recommend that the municipality pay the total outstanding MMO balance due to the non-uniformed pension plan for the years 2011, 2012, 2013, and 2014, 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 establish adequate internal control procedures to ensure the MMO is properly determine and fully paid in accordance with Act 205 requirements.

Management's Response: Municipal officials agreed with the finding without exception. Subsequent to the current audit period, on October 29, 2019, the borough paid the outstanding MMO balance due to the non-uniformed pension plan with applicable interest.

Auditor's Conclusion: Based on the management response, it appears municipal officials have complied with the finding recommendation. Continued compliance will be evaluated during our next audit of the plan.

MOUNT CARMEL BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 6 through 9 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ -	\$ -	\$ -
Interest	99,884	73,480	72,167
Difference between expected and actual experience	-	2,966	-
Changes of assumptions	-	769,748	-
Benefit payments, including refunds of member contributions	(98,205)	(111,675)	(110,337)
Net Change in Total Pension Liability	<u>1,679</u>	<u>734,519</u>	<u>(38,170)</u>
Total Pension Liability – Beginning	<u>1,380,883</u>	<u>1,382,562</u>	<u>2,117,911</u>
Total Pension Liability – Ending (a)	<u><u>\$ 1,382,562</u></u>	<u><u>\$ 2,117,081</u></u>	<u><u>\$ 2,078,911</u></u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 45,411	\$ 25,519	\$ 81,426
Contributions – state aid	-	-	-
Net investment income	89,824	(60,407)	12,157
Benefit payments, including refunds of member contributions	(98,205)	(111,675)	(110,337)
Administrative expense	(14,006)	(17,616)	(12,350)
Net Change in Plan Fiduciary Net Position	<u>23,024</u>	<u>(164,179)</u>	<u>(29,104)</u>
Plan Fiduciary Net Position – Beginning	<u>1,491,443</u>	<u>1,514,467</u>	<u>1,350,288</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 1,514,467</u></u>	<u><u>\$ 1,350,288</u></u>	<u><u>\$ 1,321,184</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ (131,905)</u></u>	<u><u>\$ 766,793</u></u>	<u><u>\$ 757,727</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	109.5%	63.8%	63.6%
Estimated Covered Employee Payroll	\$ -	\$ -	\$ 162,852
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	N/A	465.3%

MOUNT CARMEL 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, 2017 AND 2018

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Service cost	\$ 39,699	\$ 41,088
Interest	96,071	97,615
Change of benefit terms	101,972	-
Difference between expected and actual experience	17,872	-
Changes of assumptions	(436,757)	-
Benefit payments, including refunds of member contributions	(109,891)	(108,308)
Net Change in Total Pension Liability	<u>(291,034)</u>	<u>30,395</u>
Total Pension Liability – Beginning	2,078,911	1,787,877
Total Pension Liability – Ending (a)	<u>\$ 1,787,877</u>	<u>\$ 1,818,272</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 81,426	\$ 2,546
Contributions – state aid	-	115,829
Net investment income	48,561	(61,831)
Benefit payments, including refunds of member contributions	(109,891)	(108,308)
Administrative expense	(10,744)	(18,239)
Net Change in Plan Fiduciary Net Position	<u>9,352</u>	<u>(70,003)</u>
Plan Fiduciary Net Position – Beginning	1,321,184	1,330,536
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,330,536</u>	<u>\$ 1,260,533</u>
Net Pension Liability – Ending (a-b)	<u>\$ 457,341</u>	<u>\$ 557,739</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.4%	69.3%
Estimated Covered Employee Payroll	\$ -	\$ 380,000
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	146.8%

MOUNT CARMEL 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, 2015 and 2016 calculated using the discount rate of 3.50%, 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:

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Net Pension Liability – 12/31/15	\$ 1,063,305	\$ 766,793	\$ 525,699
Net Pension Liability – 12/31/16	\$ 1,041,033	\$ 757,727	\$ 526,403

In addition, the following presents the net pension liability of the borough as of December 31, 2017 and 2018 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:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability – 12/31/17	\$ 657,485	\$ 457,341	\$ 287,569
Net Pension Liability – 12/31/18	\$ 748,698	\$ 557,739	\$ 386,942

MOUNT CARMEL 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
2014	\$ 45,411	\$ 45,411	\$ -	\$ -	N/A
2015	25,511	25,519	(8)	-	N/A
2016	81,426	81,426	-	-	N/A
2017	81,426	81,426	-	-	N/A
2018	118,375	118,375	-	380,000	31.15%

SCHEDULE OF INVESTMENT RETURNS

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

2018	(4.65%)
2017	3.68%
2016	0.90%
2015	(4.11%)
2014	6.10%

MOUNT CARMEL 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	\$ 1,326,632	\$ 1,373,660	\$ 47,028	96.6%
01-01-15	1,514,467	2,155,276	640,809	70.3%
01-01-17	1,321,184	1,761,998	440,814	75.0%

MOUNT CARMEL 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.

MOUNT CARMEL 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	10 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	5.50%
Projected salary increases	3.50%

MOUNT CARMEL BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Commonwealth of Pennsylvania

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