

COMPLIANCE AUDIT

Mount Carmel Borough Police 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



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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 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 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 findings 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 findings 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 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 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 benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient. We also 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 benefits 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.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

- We determined whether refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations by testing of the one refund disbursed to plan members during the current audit period.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Mount Carmel 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 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 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 findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Restated Plan Document Not Adopted By Ordinance
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Collective Bargaining Agreement Contains Unauthorized Nonservice Related Disability Benefit Provision

The findings contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by borough officials. We are concerned by the borough's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations 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.



EUGENE A. DEPASQUALE
Auditor General

November 26, 2019

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ABBREVIATION

PSABMRT - Pennsylvania State Association Of Boroughs Municipal Retirement Trust

BACKGROUND – (Continued)

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 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Mount Carmel Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of an executed plan document effective January 1, 2012, 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 December 4, 1956. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 8 active members, 1 terminated member eligible for vested benefits in the future, and 10 retirees receiving pension benefits.

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:

Benefit equals 50% of final 36 months average salary, plus a service increment of \$100 per month after completion of 25 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.

Service Related Disability Benefit:

Benefit equals 50% of the member's average compensation over the last 36 months at the time the disability was incurred, or 50% of salary at the time the disability offset by Social Security and workers compensation.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

Mount Carmel Borough has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Restated Plan Document Not Adopted By Ordinance; and
- Collective Bargaining Agreement Contains Unauthorized Nonservice-Related Disability Benefit.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Restated Plan Document Not Adopted By Ordinance

Condition: As disclosed in the two most recent prior audit reports, the terms, provisions and conditions of the police pension plan were restated in a separately executed plan agreement with PSABMRT effective January 1, 2012. However, the restated plan agreement has not been formally adopted by an ordinance that would properly amend the plan’s existing governing ordinance. Similarly, during the prior audit period, the borough adopted another separately executed plan agreement with PSABMRT, effective January 1, 2014, through Resolution 2015-1. As of the date of this report, neither plan agreement has been adopted by properly executed ordinance as required by law.

Criteria: As previously disclosed, Act 600 at Section 1(a)(1) states, in part:

Each borough, town and township of this Commonwealth maintaining a police force of three or more full-time members and each regional police department shall, and all other boroughs, towns or townships may, establish, by ordinance or resolution, a police pension fund. . . .

Furthermore, in Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

Cause: Plan officials again failed to adopt adequate internal control procedures to ensure compliance with this department’s prior audit recommendation.

Effect: The continued failure to properly adopt the plan agreement could result in improper or inconsistent benefit payments to plan members and their beneficiaries.

Recommendation: We again recommend that municipal officials take appropriate action to formally adopt the restated plan document through a properly executed ordinance.

Management’s Response: Municipal officials agreed with the finding without exception and indicated that they will adopt an ordinance. The pension plan’s consultant will provide a sample ordinance for municipal officials to adopt through the monthly council meetings.

Auditor’s Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Collective Bargaining Agreement Contains An Unauthorized Nonservice-Related Disability Benefit Provision

Condition: As disclosed in the prior audit report, the collective bargaining agreement (CBA) between the borough and its police officers contains a provision for the payment of a nonservice-related disability benefit which is not authorized by Act 600. During the current audit period, the borough and its police officers negotiated a new CBA covering the period January 1, 2017 to December 31, 2019; however, the unauthorized nonservice-related disability benefit provision remains in this newly executed CBA.

Criteria: Regarding disability benefits, Section 5(e)(1) of Act 600 states:

In the case of the payment of pensions for permanent injuries incurred in service the amount and commencement of the payments shall be fixed by regulations of the governing body of the borough, town, township or regional police department and shall be calculated at a rate no less than fifty per centum of the member's salary at the time the disability was incurred, provided that any member who receives benefits for the same injuries under Social Security Act (49 Stat. 620, 42 U.S.C. Section 301 et. Seq.) shall have his disability benefit offset or reduced by the amount of such benefits. (Emphasis added)

Furthermore, the Supreme Court of Pennsylvania in *Chirico v. Board of Supervisors for Newtown Township*, 518 Pa. 572, 544A.2d 1313 (1998) held that Act 600 does not provide for the payment of pension benefits for non-service related injuries.

Cause: Plan officials were again unsuccessful in removing the unauthorized provision during negotiations of the current CBA and ensure compliance with this department's prior recommendation.

Effect: Providing unauthorized pension benefits increases the plan's pension cost and reduces the amount of funds available for investments purposes or for the payment of authorized benefits or administrative expenses.

Recommendation: We again recommend that the borough comply with Act 600 upon the renewal, extension, or renegotiation of the collective bargaining agreement.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management's Response: Municipal officials agreed with the finding without exception and indicated that they will again try and remove the nonservice-related disability provision from the next CBA during negotiations.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 7 through 10 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	\$ 100,639	\$ 206,115	\$ 213,329
Interest	279,063	224,758	231,519
Difference between expected and actual experience	-	(42,132)	-
Changes of assumptions	-	2,222,683	-
Benefit payments, including refunds of member contributions	(229,791)	(231,604)	(258,216)
Net Change in Total Pension Liability	149,911	2,379,820	186,632
Total Pension Liability – Beginning	4,000,877	4,150,788	6,530,608
Total Pension Liability – Ending (a)	<u>\$ 4,150,788</u>	<u>\$ 6,530,608</u>	<u>\$ 6,717,240</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 2,848,560	\$ 153,558	\$ 141,860
Contributions – state aid	61,963	62,733	69,994
Contributions – member	22,167	21,655	20,820
Net investment income	206,897	(256,558)	49,024
Benefit payments, including refunds of member contributions	(229,791)	(231,604)	(258,216)
Administrative expense	(27,821)	(49,329)	(42,198)
Net Change in Plan Fiduciary Net Position	2,881,975	(299,545)	(18,716)
Plan Fiduciary Net Position – Beginning	3,372,991	6,524,966	5,955,421
Plan Fiduciary Net Position – Ending (b)	<u>\$ 6,254,966</u>	<u>\$ 5,955,421</u>	<u>\$ 5,936,705</u>
Net Pension Liability – Ending (a-b)	<u>\$ (2,104,178)</u>	<u>\$ 575,187</u>	<u>\$ 780,535</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	150.7%	91.2%	88.4%
Estimated Covered Employee Payroll	\$ 413,834	\$ 422,858	\$ 425,000
Net Pension Liability as a Percentage of Covered Employee Payroll	(508.5%)	136.0%	183.7%

MOUNT CARMEL BOROUGH POLICE 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	\$ 112,064	\$ 115,986
Interest	267,407	275,248
Difference between expected and actual experience	(404,765)	-
Changes of assumptions	(1,444,551)	-
Benefit payments, including refunds of member contributions	(236,098)	(245,566)
Net Change in Total Pension Liability	(1,705,943)	145,668
Total Pension Liability – Beginning	6,717,240	5,011,297
Total Pension Liability – Ending (a)	<u>\$ 5,011,297</u>	<u>\$ 5,156,965</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 124,876	-
Contributions – state aid	73,412	-
Contributions – member	20,007	\$ 19,815
Net investment income	223,153	(281,054)
Benefit payments, including refunds of member contributions	(236,098)	(245,566)
Administrative expense	(39,559)	(50,380)
Net Change in Plan Fiduciary Net Position	165,791	(557,185)
Plan Fiduciary Net Position – Beginning	5,936,705	6,102,496
Plan Fiduciary Net Position – Ending (b)	<u>\$ 6,102,496</u>	<u>\$ 5,545,311</u>
 Net Pension Liability – Ending (a-b)	<u>\$ (1,091,199)</u>	<u>\$ (388,346)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	121.8%	107.5%
 Estimated Covered Employee Payroll	\$ 391,704	\$ 398,432
 Net Pension Liability as a Percentage of Covered Employee Payroll	(278.6%)	(97.5%)

MOUNT CARMEL 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 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:

	<u>1% Decrease (2.50%)</u>	<u>Current Discount Rate (3.50%)</u>	<u>1% Increase (4.50%)</u>
Net Pension Liability – 12/31/15	\$ 1,655,438	\$ 575,187	\$ (288,982)
Net Pension Liability – 12/31/16	\$ 1,890,905	\$ 780,535	\$ (108,612)

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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability – 12/31/17	\$ (417,614)	\$ (1,019,199)	\$ (1,645,027)
Net Pension Liability – 12/31/18	\$ 301,496	\$ (388,346)	\$ (955,852)

MOUNT CARMEL 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
2014*	\$ 214,440	\$ 2,910,523	\$ (2,696,083)	\$ 413,834	703.30%
2015	216,001	216,291	(290)	422,858	51.08%
2016	211,854	211,854	-	425,000	49.85%
2017	198,288	198,288	-	391,704	50.62%
2018	-	-	-	398,432	N/A

* In 2014, the borough deposited an additional \$2,696,083 from the proceeds of a rental acceleration agreement made with the Mount Carmel Municipal Authority into the pension plan.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(4.61%)
2017	3.76%
2016	0.82%
2015	(3.63%)
2014	6.10%

MOUNT CARMEL 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	\$ 2,952,141	\$ 3,864,405	\$ 912,264	76.4%
01-01-15	6,254,966	6,331,339	76,373	98.8%
01-01-17	5,936,705	4,867,924	(1,068,781)	122.0%

MOUNT CARMEL 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.

MOUNT CARMEL 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	N/A
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	5.50%
Projected salary increases	3.50%
Cost-of-living adjustments	3% per year with an aggregate maximum of 30%

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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