

LIMITED PROCEDURES ENGAGEMENT

Mount Union Borough Police Pension Plan Huntingdon County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

February 2020



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 Union Borough
Huntingdon County
Mount Union, PA 17066

We conducted a Limited Procedures Engagement (LPE) of the Mount Union Borough Police Pension Plan for the period January 1, 2015 to December 31, 2018 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 municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- Whether retirement benefits calculated for the plan member 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 pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to recipient. We also determined whether retirement benefits calculated for the plan member who elected to vest during the current engagement 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 the retired individual and comparing this amount to supporting documentation evidencing the amount 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Mount Union 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 An Underpayment Of State Aid

Finding No. 2 – Municipality Contributions For Member Transferred Into An Ineligible Member's Account

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 Mount Union 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.

February 6, 2020

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE
Auditor General

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MOUNT UNION BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior LPE Report Recommendation

Mount Union Borough has complied with the prior LPE report recommendation concerning the following:

- Inconsistent Benefit Provisions

The borough negotiated a new collective bargaining agreement (CBA) with its police officers for the period January 1, 2016 to December 31, 2020. Specifically, Section 21.3 of the CBA discloses pension benefit provisions that are now consistent with the plan's governing document.

MOUNT UNION BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough failed to certify two eligible police officers and understated payroll by \$58,986 and failed to certify one eligible non-uniformed employee and understated payroll by \$25,965 on the Certification Form AG 385 filed in 2018. The data contained on this certification form 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.

Factoring in data for both the borough's police and non-uniformed pension plans, the borough's original state aid allocation for 2018 in the amount of \$70,266 was based on unit value (15 units at \$4,684). However, based on the corrected information, the borough was entitled to an allocation in the amount of \$76,034 based on the plans' pension costs. Therefore, the borough received an underpayment of state aid in the amount of \$5,768 in 2018.

Although the additional state aid will be allocated to the borough, the full amount of the 2018 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 two 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 engagement of the plan.

MOUNT UNION BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - Municipality Contributions For Member Transferred Into An Ineligible Member's Account

Condition: The borough improperly credited a plan member's member reserve account with funds transferred from the municipal reserve account. Plan members were eligible to have their member reserve account credited with funds from the municipal reserve account if they were hired prior to January 1, 2013. This plan member was hired on April 2, 2014. Transfers to the member's reserve account were made starting from the plan member's date of hire and continued through the third quarter of 2016. As of December 31, 2018, the accumulated account balance totaled \$7,109.

Criteria: Article IX, Section 9.1 (c) of Ordinance No. 1013-2, states in part:

Municipality Contributions

For members hired prior to January 1, 2013, the Municipality shall also contribute eight percent (8%) of each Member's Compensation in accordance with the Board's policy regarding the treatment of member contributions.

Cause: Effective January 1, 2013, the borough adopted a new plan document via Ordinance No. 1013-2, which effectively created a two-tier benefit structure. Members hired after January 1, 2013 were no longer eligible to receive credits to their member reserve account from the municipal reserve account. After adopting the new plan document, the borough did not have adequate internal control procedures in place to ensure that the municipality contributions were made to only those eligible to receive them as outlined in the updated governing plan document.

Effect: The borough transferred funds into a plan member's account who did not meet the eligibility criteria to receive the contributions. By transferring municipality contributions into an ineligible plan member's account, the member could receive additional benefits beyond those outlined in the plan's governing document.

Recommendation: We recommend that the borough return the unauthorized municipality transfers allocated to the ineligible member's account back into the pension plan's municipal reserve account.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members' accounts are properly funded in accordance with the provisions contained in the plan's governing document.

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

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

MOUNT UNION 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, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 36,803	\$ 35,888	\$ 31,855	\$ 34,371	\$ 30,637
Interest	52,044	52,619	55,262	51,165	52,860
Changes of benefits	-	-	-	-	8,940
Difference between expected and actual experience	(20,129)	(29,032)	(108,521)	-	(38,381)
Changes of assumptions	-	(13,882)	19,825	-	-
Transfers	-	-	-	-	(18,746)
Benefit payments, including refunds of member contributions	(33,937)	(22,541)	(22,541)	(39,904)	(40,633)
Net Change in Total Pension Liability	34,781	23,052	(24,120)	45,632	(5,323)
Total Pension Liability - Beginning	926,193	960,974	984,026	959,906	1,005,538
Total Pension Liability - Ending (a)	<u>\$ 960,974</u>	<u>\$ 984,026</u>	<u>\$ 959,906</u>	<u>\$ 1,005,538</u>	<u>\$ 1,000,215</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 1,186	\$ -	\$ -	\$ -	\$ -
Contributions - PMRS assessment	-	-	40	60	-
Contributions - employee	13,590	-	826	5,999	8,660
PMRS investment income	72,729	78,104	81,055	74,156	80,988
Market value investment income	(4,580)	(85,030)	37,239	164,922	(155,078)
Transfers	-	-	-	-	(18,746)
Benefit payments, including refunds of member contributions	(33,937)	(22,541)	(22,541)	(39,904)	(40,633)
PMRS administrative expense	(220)	(140)	(180)	(180)	(200)
Additional administrative expense	(2,789)	(3,256)	(3,971)	(3,410)	(3,614)
Net Change in Plan Fiduciary Net Position	45,979	(32,863)	92,468	201,643	(128,623)
Plan Fiduciary Net Position - Beginning	1,365,706	1,411,685	1,378,822	1,471,290	1,672,933
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,411,685</u>	<u>\$ 1,378,822</u>	<u>\$ 1,471,290</u>	<u>\$ 1,672,933</u>	<u>\$ 1,544,310</u>
Net Pension Liability - Ending (a-b)	<u>\$ (450,711)</u>	<u>\$ (394,796)</u>	<u>\$ (511,384)</u>	<u>\$ (667,395)</u>	<u>\$ (544,095)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	146.90%	140.12%	153.27%	166.37%	154.40%
Estimated Covered Employee Payroll	\$ 214,716	\$ 195,623	\$ 200,792	\$ 198,877	\$ 177,274
Net Pension Liability as a Percentage of Covered Employee Payroll	(209.91%)	(201.81%)	(254.68%)	(335.58%)	(306.92%)

MOUNT UNION 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 5.5%, 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 (4.5%)</u>	<u>Current Discount Rate (5.5%)</u>	<u>1% Increase (6.5%)</u>
Net Pension Liability - 12/31/14	\$ (349,465)	\$ (450,711)	\$ (533,712)
Net Pension Liability - 12/31/15	\$ (298,576)	\$ (394,796)	\$ (473,263)

In addition, the following presents the net pension liability of the borough as of December 31, 2016, 2017, and 2018, 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	\$ (421,641)	\$ (511,384)	\$ (585,328)
Net Pension Liability - 12/31/17	\$ (573,386)	\$ (667,395)	\$ (744,854)
Net Pension Liability - 12/31/18	\$ (434,869)	\$ (544,095)	\$ (633,527)

MOUNT UNION 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	\$ -	\$ 1,186	\$ (1,186)	\$ 214,716	0.55%
2015	-	-	-	195,623	0.00%
2016	-	40	(40)	200,792	0.02%
2017	-	60	(60)	198,877	0.03%
2018	-	-	-	177,274	0.00%

MOUNT UNION 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	\$ 1,320,168	\$ 851,945	\$ (468,223)	155.0%
01-01-15	1,438,381	960,974	(477,407)	149.7%
01-01-17	1,563,388	959,906	(603,482)	162.9%

MOUNT UNION 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 UNION 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	Not applicable
Remaining amortization period	Not applicable
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.

MOUNT UNION BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Timothy M. Allison
Mayor

Ms. Mary Hancock
Council President

Ms. Cynthia S. Hobbs
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Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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