

COMPLIANCE AUDIT

Steelton Borough Non-Uniformed Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

April 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
Steelton Borough
Dauphin County
Steelton, PA 17113

We have conducted a compliance audit of the Steelton 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

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 have 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 all 3 of the plan members 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined 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.
- 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.

Steelton Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016, 2017, which are available at the borough's offices. We did not audit those financial statements and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Steelton 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Steelton Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Steelton 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.

March 28, 2019



EUGENE A. DEPASQUALE
Auditor General

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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 Steelton 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 Steelton Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance 81-1, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established May 31, 1974. Active members are required to contribute 4 percent of compensation to the plan. As of December 31, 2018, the plan had 17 active members, 1 terminated member eligible for vested benefits in the future, and 18 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Age 65 and 10 years of service.
Early Retirement	Age 55 and 10 years of service.
Vesting	100% vesting after 7 years of service.

Retirement Benefit:

A monthly benefit equal to 1.5% of average monthly compensation (total pay averaged over the final 36 months of active employment) multiplied by years of credited service.

Survivor Benefit:

Before Vesting Eligibility	Refund of member contributions plus interest.
After Vesting Eligibility but before Retirement	The spouse will receive 50% of the amount the participant was entitled to receive payable for life or until remarriage.
After Retirement	The normal form of payment is a life annuity. At retirement, the participant can select an optional form of payment that is an actuarial equivalent of the normal form.

Disability Benefit:

For total and permanent disablement and qualification for Social Security disability benefits, a monthly benefit equal to the Accrued Benefit at date of disablement payable following six months of disablement for the life of the participant.

STEELTON BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Steelton Borough has complied with the prior audit recommendation concerning the following:

- Failure To Maintain Adequate Minutes Of Borough Council Meetings

Plan officials maintained adequate minutes of council meetings during the current audit period.

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

The supplementary information contained on Pages 4 through 7 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	\$ 91,307	\$ 79,010	\$ 82,565
Interest	293,169	312,025	321,330
Difference between expected and actual experience	-	162,508	-
Benefit payments, including refunds of member contributions	<u>(255,622)</u>	<u>(294,261)</u>	<u>(237,229)</u>
Net Change in Total Pension Liability	128,854	259,282	166,666
Total Pension Liability – Beginning	<u>4,077,977</u>	<u>4,206,831</u>	<u>4,466,113</u>
Total Pension Liability – Ending (a)	<u><u>\$ 4,206,831</u></u>	<u><u>\$ 4,466,113</u></u>	<u><u>\$ 4,632,779</u></u>
 Plan Fiduciary Net Position			
Contributions – employer	\$ 147,504	\$ 143,639	\$ 137,911
Contributions – member	47,700	42,804	44,695
Net investment income	180,258	(41,668)	131,080
Benefit payments, including refunds of member contributions	<u>(255,622)</u>	<u>(294,261)</u>	<u>(237,229)</u>
Administrative expense	<u>(2,700)</u>	<u>(7,480)</u>	<u>(2,475)</u>
Net Change in Plan Fiduciary Net Position	117,140	(156,966)	73,982
Plan Fiduciary Net Position – Beginning	<u>3,366,184</u>	<u>3,483,324</u>	<u>3,326,358</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 3,483,324</u></u>	<u><u>\$ 3,326,358</u></u>	<u><u>\$ 3,400,340</u></u>
 Net Pension Liability – Ending (a-b)	<u><u>\$ 723,507</u></u>	<u><u>\$ 1,139,755</u></u>	<u><u>\$ 1,232,439</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.80%	74.48%	73.40%
 Estimated Covered Employee Payroll	\$ 1,089,134	\$ 955,272	\$ 1,125,506
 Net Pension Liability as a Percentage of Covered Employee Payroll	66.43%	119.31%	109.50%

STEELTON 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	\$ 94,521	\$ 98,538
Interest	335,230	345,653
Difference between expected and actual experience	(89,877)	-
Changes of assumptions	447,252	-
Benefit payments, including refunds of member contributions	(240,533)	(319,468)
Net Change in Total Pension Liability	<u>546,593</u>	<u>124,723</u>
Total Pension Liability – Beginning	4,632,780	5,179,373
Total Pension Liability – Ending (a)	<u><u>\$ 5,179,373</u></u>	<u><u>\$ 5,304,096</u></u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 146,543	\$ 208,353
Contributions – employee	43,731	42,292
Net investment income	438,523	(173,444)
Benefit payments, including refunds of member contributions	(240,533)	(319,468)
Administrative expense	(22,656)	(28,485)
Net Change in Plan Fiduciary Net Position	<u>365,608</u>	<u>(270,752)</u>
Plan Fiduciary Net Position – Beginning	3,400,341	3,765,949
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 3,765,949</u></u>	<u><u>\$ 3,495,197</u></u>
 Net Pension Liability – Ending (a-b)	<u><u>\$ 1,413,424</u></u>	<u><u>\$ 1,808,899</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.71%	65.90%
 Estimated Covered Employee Payroll	\$ 1,094,677	\$ 1,072,188
 Net Pension Liability as a Percentage of Covered Employee Payroll	129.12%	168.71%

STEELTON 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 7.25%, 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 (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Net Pension Liability – 12/31/15	\$ 1,705,302	\$ 1,139,755	\$ 662,229
Net Pension Liability – 12/31/16	\$ 1,812,002	\$ 1,232,439	\$ 742,048

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 6.75%, 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 (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net Pension Liability – 12/31/17	\$ 2,055,579	\$ 1,413,424	\$ 871,271
Net Pension Liability – 12/31/18	\$ 2,465,228	\$ 1,808,899	\$ 1,254,082

STEELTON 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
2009	\$ 77,050	\$ 83,121	\$ (6,071)	\$ -	
2010	70,122	73,275	(3,153)	1,170,380	6.3%
2011	81,168	98,776	(17,608)	-	
2012	80,560	94,838	(14,278)	1,158,596	8.2%
2013	141,905	141,905	-	-	
2014	147,504	147,504	-	1,089,134	13.5%
2015	143,639	143,639	-	955,272	15.0%
2016	137,911	137,911	-	1,125,506	12.3%
2017	146,543	146,543	-	1,094,677	13.4%
2018	208,353	208,353	-	1,072,188	19.4%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(4.73%)
2017	13.22%
2016	4.66%
2015	(0.63%)
2014	6.12%

STEELTON 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	\$ 3,068,869	\$ 3,914,009	\$ 845,140	78.4%
01-01-15	3,381,743	4,369,339	987,596	77.4%
01-01-17	3,606,084	4,990,155	1,384,071	72.3%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period subject to a corridor between 80 to 120 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

STEELTON 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.

STEELTON 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	17 years
Asset valuation method	Fair value, 4 year smoothing subject to a corridor between 80 and 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.25%

STEELTON BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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