

# LIMITED PROCEDURES ENGAGEMENT

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## Williamsburg Borough Police Pension Plan Blair County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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May 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  
Williamsburg Borough  
Blair County  
Williamsburg, PA 16693

We conducted a Limited Procedures Engagement (LPE) of the Williamsburg Borough Police 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 municipal officials took appropriate corrective action to address the findings 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 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.
- Whether the terms of the plan's allocated insurance contracts, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Williamsburg 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 finding further discussed later in this report:

Finding – Failure To Implement Mandatory Provisions Of Act 205

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 Williamsburg 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.

May 1, 2019



EUGENE A. DEPASQUALE  
Auditor General

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WILLIAMSBURG BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Williamsburg Borough has complied with the prior audit recommendations concerning the following:

- Failure To Maintain An Adequate Record-Keeping System And Effectively Monitoring The Activity Of The Pension Plan

During the current engagement period, plan officials established adequate accounting procedures which met the minimum record-keeping requirements of this department;

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current engagement period, the borough reimbursed \$1,297 to the Commonwealth for the overpayment of state aid in 2012 with interest and complied with the instructions accompanying Forms AG 385 and accurately reported the required data; and

- Withdrawal Of Plan Assets Prior To Retirement Eligibility

During the current engagement, the borough again transferred ownership of an allocated insurance contract to a terminated member who was neither fully vested nor attained normal retirement eligibility. However, effective January 1, 2015, the borough joined the Pennsylvania Municipal Retirement System (PMRS), which has internal control procedures in place to ensure that this situation does not happen in the future.

WILLIAMSBURG BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Implement Mandatory Provisions Of Act 205**

Condition: During the prior audit, a verbal observation was issued to plan officials notifying them of the passage of Act 44 of 2009, which effectively amended Act 205 for the procurement of professional services contracts, and recommending that the borough adopt the mandatory provisions, accordingly. However, during the current engagement period, the municipality again failed to adopt such mandatory provisions. In addition, during 2015, the borough changed plan custodians and investment mechanisms and joined PMRS for the administration of its police pension plan; however, there was no evidence provided to support that the change was conducted in accordance with the provisions of Act 205.

Criteria: Section 701-A of Act 205, as amended by Act 44, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

**Review.** Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

**Conflict of interest.** The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

**Public information.** Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

WILLIAMSBURG BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

**Notice and summary.** The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states in part:

Upon advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Cause: Plan officials failed to establish adequate procedures to ensure compliance with provisions of Act 205 as previously recommended. In addition, plan officials indicated that they were advised by a representative from PMRS that the borough was not required to adopt the Act 205 procedures.

Effect: The borough's failure to comply in all respects with the provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the borough's pension plan denotes a general lack of overall transparency of the actions taken by plan officials relative to the contracting for custodial and investment services for the borough's pension plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions which should include the maintaining of appropriate and sufficient supporting documentation evidencing every phase of the process to ensure the transparency of the actions taken by plan officials relative to the awarding of any future professional services contracts for its pension plan.

Management's Response: On March 4, 2019, the borough adopted procedures for the procurement of professional services via Resolution No. 2019-2 to comply with Act 205.

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

WILLIAMSBURG BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 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, 2015, 2016, AND 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability			
Service cost	\$ 9,679	\$ 9,507	\$ 21,072
Interest	587	1,913	2,661
Transfers	21,322	-	-
Net Change in Total Pension Liability	<u>31,588</u>	<u>11,420</u>	<u>23,733</u>
Total Pension Liability – Beginning	-	31,588	43,008
Total Pension Liability – Ending (a)	<u><u>\$ 31,588</u></u>	<u><u>\$ 43,008</u></u>	<u><u>\$ 66,741</u></u>
Plan Fiduciary Net Position			
Contributions – employer *	\$ 9,679	\$ 6,076	\$ -
Contributions – PMRS assessment	40	40	-
PMRS investment income	587	4,994	11,906
Market value investment income	(2,247)	(8,151)	28,742
Transfers	21,322	171,200	72,948
PMRS administrative expense	(40)	(40)	(40)
Additional administrative expense	(24)	(245)	(548)
Net Change in Plan Fiduciary Net Position	<u>29,317</u>	<u>173,874</u>	<u>113,008</u>
Plan Fiduciary Net Position – Beginning	-	29,317	203,191
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 29,317</u></u>	<u><u>\$ 203,191</u></u>	<u><u>\$ 316,199</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 2,271</u></u>	<u><u>\$ (160,183)</u></u>	<u><u>\$ (249,458)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.81%	472.45%	473.77%
Estimated Covered Employee Payroll	\$ 64,525	\$ 63,382	\$ 70,242
Net Pension Liability as a Percentage of Covered Employee Payroll	3.52%	(252.73%)	(355.14%)

\* Employer contributions made from the pension plan's irrevocably committed pension plan assets (refer to Comment section of this report).



WILLIAMSBURG 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 city as of December 31, 2015, calculated using the discount rate of 5.5%, as well as what the city'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 (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability – 12/31/15	\$ 8,588	\$ 2,271	\$ (4,047)

In addition, the following presents the net pension liability of the city as of December 31, 2016 and 2017, calculated using the discount rate of 5.25%, as well as what the city'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 (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability – 12/31/16	\$ (151,581)	\$ (160,183)	\$ (168,785)
Net Pension Liability – 12/31/17	\$ (236,110)	\$ (249,458)	\$ (262,806)

WILLIAMSBURG BOROUGH POLICE PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	None	None
2013	None	None
2014	None	None
2015	None	None
2016	None	None
2017	None	None

WILLIAMSBURG BOROUGH POLICE PENSION PLAN  
COMMENT

As previously disclosed in prior reports, the municipality enacted Ordinance No. 287 on December 2, 1985, providing for the irrevocable commitment of certain state funds payable to Williamsburg Borough for use by their police pension plan. This ordinance was established in accordance with Act 205, Section 403(a), which states in part:

Any funds paid to a municipality pursuant to the act of May 12, 1943 (P.L. 259, No. 120), referred to as the Foreign Casualty Insurance Premium Tax Allocation Law, prior to the effective date of this act, and which have been either actually expended or, by action of the municipality, are irrevocably committed to be expended only in accordance with Foreign Casualty Insurance Premium Tax Allocation Law, shall not be returned for redistribution pursuant to section 1.2 of the Foreign Casualty Insurance Premium Tax Allocation Law.

Because the pension plan continues to maintain a balance of irrevocably committed funds, state aid and municipal contributions were not used to fund the pension plan during the engagement period and may not be allocated to this plan in subsequent periods until this irrevocably committed fund balance is depleted.

At December 31, 2017, the police pension plan maintained a balance of unallocated but irrevocably committed funds in the amount of \$381,905 that was not earmarked for individual members of the municipality's defined contribution police pension plan.

WILLIAMSBURG 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 Theodore Hyle**  
Mayor

**Mr. Donald Zimmerman**  
Council President

**Mr. Joseph Lansberry**  
Borough Manager

**Ms. Lisa Dishong**  
Office Manager

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