

LIMITED PROCEDURES ENGAGEMENT

Windsor Borough
Non-Uniformed Pension Plan
York County, Pennsylvania
For the Period
January 1, 2013 to December 31, 2016

February 2018



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
Windsor Borough
York County
Windsor, PA 17366

We conducted a Limited Procedures Engagement (LPE) of the Windsor Borough Non-Uniformed Pension Plan for the period January 1, 2013 to December 31, 2016 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether the January 1, 2011, January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014 and 2016, 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 Windsor Borough Non-Uniformed 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 – Partial Compliance With the Prior Audit Recommendation – Receipt
Of State Aid In Excess Of Entitlement**

The finding contained in this LPE report repeats a condition that was cited in our previous audit report that has not been fully 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 report.

The contents of this report were discussed with officials of Windsor 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.



January 25, 2018

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Status of Prior Findings	1
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement	2
Supplementary Information	4
Summary of Deposited State Aid and Employer Contributions.....	6
Report Distribution List	7

WINDSOR BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

- **Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan**

The borough liquidated the unallocated reserve fund and transferred the excess municipal contributions made to the plan, plus interest, to the borough's general fund.

Partial Compliance With Prior Audit Report Recommendation

Windsor Borough has partially complied with the prior audit report recommendation concerning the following:

- **Receipt Of State Aid In Excess Of Entitlement**

During the current engagement period, the borough returned \$473 to the Commonwealth for the excess state aid received in the years 2010 and 2011. However, during the current engagement period, the borough again received state aid in excess of the plan's pension costs, as further discussed in the Finding and Recommendation section of this report.

WINDSOR BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement

Condition: As disclosed in the Status of Prior Findings section of this report, although the borough returned the excess state aid received in the years 2010 and 2011 to the Commonwealth, a similar condition occurred during the current audit period. The borough again received state aid in excess of the non-uniformed pension plan's pension costs, as illustrated below:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
State aid allocation	\$ 4,884	\$ 5,200	\$ 5,204
Actual municipal pension costs	<u>(4,696)</u>	<u>(4,889)</u>	<u>(4,829)</u>
Excess state aid	<u>\$ 188</u>	<u>\$ 311</u>	<u>\$ 375</u>

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Plan officials again failed to establish adequate internal control procedures to reconcile the borough's state aid allocation with the plan's actual defined contribution pension costs and ensure compliance with this department's prior audit recommendation.

Effect: It is this department's opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid received in the years 2014, 2015, and 2016 must be returned to the Commonwealth for redistribution.

**WINDSOR BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION**

Finding – (Continued)

Recommendation: We recommend that the municipality return the \$874 of excess state aid received in the years 2014, 2015, and 2016 to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we again recommend that, in the future, plan officials reconcile the borough's annual state aid allocation with the plan's annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

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

Auditor's Conclusion: We are concerned that the municipality has not fully complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so. Compliance will be evaluated during our next plan engagement.

**WINDSOR BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)**

The supplementary information contained on Pages 4 and 5 reflects the implementation of GASB Statement No. 68, *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 AND 2015**

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 8,787	\$ 10,604
Interest	5,766	6,353
Difference between expected and actual experience	611	668
Change of assumptions	-	778
Benefit payments, including refunds of member contributions	(5,028)	(5,028)
Net Change in Total Pension Liability	<u>10,136</u>	<u>13,375</u>
Total Pension Liability – Beginning	<u>104,070</u>	<u>114,206</u>
Total Pension Liability - Ending (a)	<u>\$ 114,206</u>	<u>\$ 127,581</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 4,755	\$ 5,077
Contribution – member	4,171	5,795
Net investment income	5,898	168
Benefit payments, including refunds of member contributions	(5,028)	(5,028)
Administrative expense	(300)	(344)
Net Change in Plan Fiduciary Net Position	<u>9,496</u>	<u>5,668</u>
Plan Fiduciary Net Position - Beginning	<u>102,071</u>	<u>111,567</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 111,567</u>	<u>\$ 117,235</u>
Net Pension Liability - Ending (a-b)	<u>\$ 2,639</u>	<u>\$ 10,346</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.69%	91.89%
Estimated Covered Employee Payroll	\$ 77,091	\$ 79,935
Net Pension Liability as a Percentage of Covered Employee Payroll	3.42%	12.94%

**WINDSOR 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, 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:

	1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability - 12/31/14	\$ 19,151	\$ 2,639	\$ (13,245)
Net Pension Liability - 12/31/15	\$ 29,536	\$ 10,346	\$ (8,244)

WINDSOR BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 4,627	None
2012	4,871	\$ 1,546
2013	4,589	1
2014	4,755	None
2015	5,077	None
2016	5,060	None

**WINDSOR BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST**

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Larry Markel
Mayor

Mr. Matt Dietz
Council President

Ms. Donna J. Martin
Secretary/Treasurer

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.