

COMPLIANCE AUDIT

Yeadon Borough Police Pension Plan

Delaware County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2018

April 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
Yeadon Borough
Delaware County
Yeadon, PA 19050

We have conducted a compliance audit of the Yeadon 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and 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 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 both 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, 2015, January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 2018, and 2020, 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 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 provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Yeadon 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, and 2017 which are available at the borough's offices. Those financial statements were not audited by us 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 Yeadon 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 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 Yeadon 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 – Inconsistent Pension Benefit Provisions

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment of State Aid

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 Yeadon Borough and, where appropriate, their responses have been included in the report.

March 25, 2020



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 Yeadon 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. § 767 et seq.

The Yeadon Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1311, as amended, 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 November 16, 1983. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 13 active members, no terminated members eligible for vested benefits in the future, and 20 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 50 and 25 years of service.

Early Retirement 20 years of service.

Vesting 100% after 12 years of service.

Retirement Benefit:

50% of final 36 months average salary, plus a service increment of \$100 per month for each year of service in excess of 25 years, up to a maximum of \$300 per month.

Survivor Benefit:

Before Retirement Eligibility Refund of member contributions plus interest.

After Retirement Eligibility A monthly benefit equal to 75% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

75% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

YEADON BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Inconsistent Pension Benefit Provision

The borough amended the plan's governing document and collective bargaining agreement to bring the survivor's benefit provision into compliance with Act 600.

YEADON BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inconsistent Pension Benefit Provisions

Condition: The collective bargaining agreement between the borough and its police officers for the period January 1, 2018 to December 31, 2022, amended the service increment benefit and the Act 44 Retirement Option Program provisions; however, the plan’s governing document has not been amended accordingly to reflect the current provisions. The inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Service Increment	Each member who has completed 26 years of service shall receive an additional monthly pension benefit equal to a maximum of \$100 per month.	For each additional year of service over 25 years, the pension of the police officer shall be increased by \$100 per month, with the maximum increase in the pension being limited to \$300 per month.
Act 44 Retirement Option Program	Maximum participation of 3 years.	Maximum participation of 5 years.

Criteria: A governing document, which contains clearly defined and updated benefit provisions, is a prerequisite for the consistent, sound administration of retirement benefits.

Cause: The failure to amend the governing document to reflect the provisions of the new collective bargaining agreement is attributable to an oversight.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials amend the plan’s governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the plan documents.

Management Response: Municipal officials agreed with the finding without exception and will amend the governing document at the next council meeting.

Auditor Response: Compliance will be evaluated during our next audit of the plan.

YEADON BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough failed to certify 1 eligible non-uniformed union employee (1 unit) on the Certification Form AG 385 filed in 2017. In addition, the borough failed to certify 1 eligible police officer (2 units) on the Certification Form AG 385 filed in 2018. The data contained on these certification forms 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: The borough's failure to include the eligible employees was attributable to an oversight.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough's state aid allocations were based on unit value, the borough received an underpayment of state aid of \$13,956, as identified below:

<u>Year</u>	<u>Type of Plan</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2017	Non-Uniformed Union	1	\$ 4,588	\$ 4,588
2018	Police	2	\$ 4,684	\$ 9,368
Total Underpayment of State Aid				<u>\$ 13,956</u>

Although the additional state aid will be allocated to the borough, the full amount of the 2017 and 2018 state aid allocations was not available to be deposited timely and therefore resulted in the borough having to make additional municipal contributions in order to meet the plan's funding obligation.

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 audit of the plan.

YEADON BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 6 through 8 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	\$ 123,931	\$ 120,262	\$ 126,876	\$ 150,424	\$ 158,697
Interest	540,943	577,626	602,096	582,663	593,429
Change of benefit terms	-	(100,869)	-	-	27,905
Difference between expected and actual experience	-	96,866	-	(439,395)	-
Changes of assumptions	-	189,785	-	21,492	-
Benefit payments, including refunds of member contributions	(365,542)	(411,353)	(385,899)	(769,164)	(500,209)
Net Change in Total Pension Liability	299,332	472,317	343,073	(453,980)	279,822
Total Pension Liability – Beginning	6,820,624	7,119,956	7,592,273	7,935,346	7,481,366
Total Pension Liability – Ending (a)	<u>\$ 7,119,956</u>	<u>\$ 7,592,273</u>	<u>\$ 7,935,346</u>	<u>\$ 7,481,366</u>	<u>\$ 7,761,188</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 80,353	\$ 148,528	\$ 72,591	\$ 112,271	\$ 156,865
Contributions – State Aid	170,398	86,258	170,611	192,707	192,060
Contributions – member	51,526	52,621	59,536	64,782	76,403
Net investment income	306,353	(221,378)	326,763	722,082	(305,117)
Benefit payments, including refunds of member contributions	(365,542)	(411,353)	(385,899)	(769,164)	(500,209)
Administrative expense	(2,609)	(18,055)	(7,994)	(5,500)	(8,000)
Net Change in Plan Fiduciary Net Position	240,479	(363,379)	235,608	317,178	(387,998)
Plan Fiduciary Net Position – Beginning	4,704,431	4,944,910	4,581,531	4,817,139	5,134,317
Plan Fiduciary Net Position – Ending (b)	<u>\$ 4,944,910</u>	<u>\$ 4,581,531</u>	<u>\$ 4,817,139</u>	<u>\$ 5,134,317</u>	<u>\$ 4,746,319</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,175,046</u>	<u>\$ 3,010,742</u>	<u>\$ 3,118,207</u>	<u>\$ 2,347,049</u>	<u>\$ 3,014,869</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.5%	60.3%	60.7%	68.6%	61.2%
Estimated Covered Employee Payroll	\$ 1,210,724	\$ 920,986	\$ 1,073,718	\$ 1,206,148	\$ 1,292,006
Net Pension Liability as a Percentage of Covered Employee Payroll	179.6%	326.9%	290.4%	194.6%	233.3%

YEADON 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, 2015, 2016, 2017, and 2018, calculated using the discount rate of 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/14	\$ 2,804,097	\$ 2,175,046	\$ 1,632,545
Net Pension Liability – 12/31/15	\$ 3,720,565	\$ 3,010,742	\$ 2,400,466
Net Pension Liability – 12/31/16	\$ 3,833,827	\$ 3,118,207	\$ 2,502,901
Net Pension Liability – 12/31/17	\$ 3,074,835	\$ 2,347,049	\$ 1,722,057
Net Pension Liability – 12/31/18	\$ 3,761,454	\$ 3,014,869	\$ 2,373,392

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	\$ 250,751	\$ 250,751	\$ -	\$1,210,724	20.71%
2015	234,786	234,786	-	920,986	25.49%
2016	243,202	243,202	-	1,073,718	22.65%
2017	304,978	304,978	-	1,206,148	25.29%
2018	348,925	348,925	-	1,292,006	27.01%

YEADON BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(6.47%)
2017	16.60%
2016	7.89%
2015	(4.63%)
2014	6.54%

YEADON 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, 2015, 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)
01-01-15	\$ 5,637,799	\$ 7,305,738	\$ 1,667,939	77.2%
01-01-17	5,780,567	7,517,443	1,736,876	76.9%
01-01-19	5,695,583	7,915,490	2,219,907	72.0%

Note: The market values of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses subject to a ceiling of 120 percent of market value. These methods 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.

YEADON 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.

YEADON 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.5%

YEADON BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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