

LIMITED PROCEDURES ENGAGEMENT

Youngsville Borough Police Pension Plan Warren County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

October 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Youngsville Borough
Warren County
Youngsville, PA 16371

We conducted a Limited Procedures Engagement (LPE) of the Youngsville Borough Police Pension Plan for the period January 1, 2016 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 LPE 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, 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 Youngsville 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 – Noncompliance With Prior Engagement Recommendation –
Provision of Benefits In Excess Of Act 37

The finding contained in this LPE report repeats a condition that was cited in our previous engagement report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this report.

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 Youngsville 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.

September 25, 2019



EUGENE A. DEPASQUALE
Auditor General

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YOUNGSVILLE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior LPE Report Recommendation

Youngsville Borough has not complied with the prior LPE report recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Provision Of Benefits In Excess Of Act 37

YOUNGSVILLE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Engagement Recommendation – Provision Of Benefits
In Excess Of Act 37**

Condition: As disclosed in the previous four reports, the borough adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 et seq. During the current period covered by this engagement, the pension plan’s governing document continues to grant a survivor benefit that is not authorized by Act 37 (formerly Act 581).

Section 4.01 of the joinder agreement with PSABMRT provides that the normal form of retirement benefit shall be a life annuity with 120 months certain, with optional forms additionally provided. Some of the optional forms provide for contingent annuitant benefits ranging from 50 percent to 100 percent of the member’s retirement benefit.

Criteria: Section 1131(c)(1) of Act 37 states:

All pension funds or investment or insurance instruments established under this section shall be under the direction of the council, or a committee as it may designate, and shall be applied under regulations as the council may, by ordinance, prescribe for the benefit of the members of the police force who receive honorable discharge by reason of age or disability and the families of police officers injured or killed in service. [Emphasis added]

Consequently, Act 37 (formerly Act 581) does not provide for survivor benefits for retirees not on disability or killed in service.

Cause: Borough officials wish to remain consistent with the agreement in place when the current police officers were hired, which allows survivor benefits.

Effect: Providing unauthorized pension benefits increases the plan’s pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the borough received state aid based on unit value during the current engagement period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

YOUNGSVILLE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We again recommend that the borough comply with Act 37 upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the borough is not in compliance with Act 37 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 37, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the borough's future state aid allocations and submit this information to the department. If it is determined the unauthorized benefits had an impact on the borough's state aid allocations after the submission of this information, the plan's actuary would then be required to contact the department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

Management's Response: Municipal officials indicated that they have not complied because they are committed to remaining consistent with the agreement in place when the current police officers were hired, which allows survivor benefits. They also indicated that they plan to comply with our recommendation in 2019, applicable to any future hires.

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

YOUNGSVILLE BOROUGH POLICE 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 12,520	\$ 15,197
Interest	35,133	38,011
Difference between expected and actual experience	-	10,147
Changes of assumptions	-	15,174
Benefit payments, including refunds of member contributions	<u>(37,271)</u>	<u>(37,271)</u>
Net Change in Total Pension Liability	10,382	41,258
Total Pension Liability – Beginning	<u>474,555</u>	<u>484,937</u>
Total Pension Liability – Ending (a)	<u>\$ 484,937</u>	<u>\$ 526,195</u>
Plan Fiduciary Net Position		
Contributions – Employer	\$ 37,131	\$ 32,828
Net investment income	19,851	(2,220)
Benefit payments, including refunds of member contributions	<u>(37,271)</u>	<u>(37,271)</u>
Administrative expense	<u>(3,763)</u>	<u>(7,239)</u>
Net Change in Plan Fiduciary Net Position	15,948	(13,902)
Plan Fiduciary Net Position – Beginning	<u>341,344</u>	<u>357,292</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 357,292</u>	<u>\$ 343,390</u>
Net Pension Liability – Ending (a-b)	<u>\$ 127,645</u>	<u>\$ 182,805</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.7%	65.3%
Estimated Covered Employee Payroll	\$ 78,930	\$ 93,382
Net Pension Liability as a Percentage of Covered Employee Payroll	161.7%	195.8%

YOUNGSVILLE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017, AND 2018

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability			
Service cost	\$ 15,881	\$ 15,790	\$ 16,501
Interest	39,258	41,296	42,835
Difference between expected and actual experience	-	7,388	-
Changes of assumptions	-	2,002	-
Benefit payments, including refunds of member contributions	<u>(37,271)</u>	<u>(37,271)</u>	<u>(37,271)</u>
Net Change in Total Pension Liability	17,868	29,205	22,065
Total Pension Liability – Beginning	<u>526,195</u>	<u>544,063</u>	<u>573,268</u>
Total Pension Liability – Ending (a)	<u>\$ 544,063</u>	<u>\$ 573,268</u>	<u>\$ 595,333</u>
 Plan Fiduciary Net Position			
Contributions – Employer	\$ 13,655	\$ -	\$ -
Contributions – State aid	28,059	41,032	43,262
Net investment income	15,693	45,736	(18,753)
Benefit payments, including refunds of member contributions	<u>(37,271)</u>	<u>(37,271)</u>	<u>(37,271)</u>
Administrative expense	<u>(4,341)</u>	<u>(7,503)</u>	<u>(4,653)</u>
Net Change in Plan Fiduciary Net Position	15,795	41,994	(17,415)
Plan Fiduciary Net Position – Beginning	<u>343,390</u>	<u>359,185</u>	<u>401,179</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 359,185</u>	<u>\$ 401,179</u>	<u>\$ 383,764</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 184,878</u>	<u>\$ 172,089</u>	<u>\$ 211,569</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.0%	70.0%	64.5%
 Estimated Covered Employee Payroll	\$ 96,000	\$ 91,686	\$ 98,450
 Net Pension Liability as a Percentage of Covered Employee Payroll	192.6%	187.7%	214.9%

YOUNGSVILLE 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 7.5%, 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 (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net Pension Liability – 12/31/14	\$ 178,526	\$ 127,645	\$ 83,947
Net Pension Liability – 12/31/15	\$ 240,385	\$ 182,805	\$ 133,639
Net Pension Liability – 12/31/16	\$ 245,640	\$ 184,878	\$ 133,065
Net Pension Liability – 12/31/17	\$ 236,100	\$ 172,089	\$ 117,475
Net Pension Liability – 12/31/18	\$ 278,884	\$ 211,569	\$ 154,183

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 37,131	\$ 37,131	\$ -	\$ 78,930	47.04%
2015	32,828	32,828	-	93,382	35.15%
2016	41,714	41,714	-	96,000	43.45%
2017	41,032	41,032	-	91,686	44.75%
2018	43,262	43,262	-	98,450	43.94%

YOUNGSVILLE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(4.67%)
2017	12.73%
2016	4.57%
2015	(0.65%)
2014	6.09%

YOUNGSVILLE 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	\$ 374,479	\$ 465,436	\$ 90,957	80.5%
01-01-15	402,397	510,258	107,861	78.9%
01-01-17	431,022	553,453	122,431	77.9%

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 subject to a ceiling of 120 percent of the market value of assets. 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.

YOUNGSVILLE 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.

YOUNGSVILLE 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	Level dollar
Remaining amortization period	13 years
Asset valuation method	Fair value, smoothing method described in Section 210 of Act 205, as amended.
Actuarial assumptions:	
Investment rate of return	7.5%, net of expenses
Projected salary increases	4.5%

YOUNGSVILLE 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 Scott Nelson
Mayor

Ms. Lisa M. Hagberg
Borough Manager

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.